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Industrial redundancies.

A comparative analysis of the chemical and clothing industries
on Teesside (UK) and Brindisi (I)

Thesis submitted for the degree of PhD
University of Durham, Department of Geography

2000

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Lidia Greco



13 JUL 2001

For my parents

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List of abbreviations

BP	British Petroleum
BSC	British Steel Corporation
CBI	Confederation of British Industries
CENSIS	Centro Studi Investimenti Sociali
CISL	Confederazione Italiana Sindacati dei Lavoratori
CGIL	Confederazione Generale Italiana del Lavoro
CIG	Cassa Integrazione Guadagni
CNA	Confederazione Nazionale Artigiani
CVM	Vinyl Chloride Monomer
DC	Democrazia Cristiana
ENI	Ente Nazionale Idrocarburi
EVC	European Vinyl Corporation
GMB	General Municipal and Boilermakers
ICI	Imperial Chemical Industries
INPS	Istituto Nazionale della Previdenza Sociale
IRI	Istituto per la Ricostruzione Industriale
M&S	Marks and Spencer
MDI	Methldiphenyl Di-isocyanate
OECD	Organisation for Economic Co-operation and Development
PP.SS.	Partecipazioni Statali
PVC	Polyvinyl Chloride
TCI	Teesside Chemical Initiative
TEC	Training and Enterprise Council
TVJSU	Tees Valley Joint Strategy Unit

Declaration

No part of this thesis has previously been submitted for a degree at this or any other university.

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Abstract

This thesis develops an alternative to the neo-classical approach to redundancies. The study assumes that the employment relation is not reducible to the labour contract and, therefore, cannot be subjected exclusively to the monetary exchange. It focuses on the intermediate formal and informal institutions that, by entering the process of wage determination and regulating the relationship between capital and labour, constitute a critical factor in explaining industrial and employment change. In doing so, it suggests a complementarity between macro-economic perspectives (e.g. the Keynesian approach, the Schumpeterian theory and Marxist perspective), preference models on industrial unemployment and the insights of the old institutionalist tradition.

Industrial restructuring and redundancies are conceptualised as institutionally constructed processes and geographically situated. Rather than envisaging the convergence of firms towards a single, uniform form of restructuring synonymous with redundancies, the thesis holds that corporate adjustments are neither uniform, nor the result of profit maximising behaviours. Redundancies are subject to the actions and strategies of individuals and groups that influence the process of wage determination and, through it, the definition and the pursuit of profitability and efficiency. By considering institutional relations, shaped by external factors, cultural conditions and sedimented practices, the thesis highlights the spatial specificity of restructuring processes and redundancies.

The thesis explores processes of corporate restructuring and redundancies in two industrial areas, Teesside (UK) and Brindisi (I), by drawing upon the evidence from two industries: the chemicals and the clothing sectors. Contrary to market-centred analyses, the evidence shows that similar economic pressures have generated different responses in the two sectors and among companies of the same sector. In addition, by focusing on the local environment in which companies are embedded, the thesis reveals how place-specific social and historical practices represent important variables to explain redundancy processes in the two areas.

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Finally, a special mention is for Professor Franco Chiarello to whom I owe my first steps into research. I would like to thank him especially for his encouragement in undertaking the PhD which has become a remarkable life experience.

Chapter 1 - Introduction

Facing redundancies seems to be a recurrent problem for industrial areas. Despite claims heralding the demise of the era of waged work and the emergence of new forms of labour (associated in particular with the rise of the knowledge economy, see Rifkin, 1995; Gorz, 1999; Offe, 1985), job losses following processes of corporate restructuring¹ continue to occupy the national news and to attract the attention of economic analyses². Businesses seem to have entered a regime of continuous restructuring in which the re-organisation of production and labour is no longer a cyclical occurrence in the context of economic hardship or paradigmatic change. Restructuring seems an integral part of normal corporate activity (Carabelli and Tronti, 1999).

The perspective that monopolises the debate on redundancies, primarily because of the dominance of neo-liberal rhetoric, is one rooted in neo-classical economics. Its core variable is the cost of labour³. Whenever a negative economic situation requires, it is argued, companies, as profit maximising agents, must radically reduce input costs and output prices to bring the organisation's operation into alignment with market expectations (Williamson, 1985; Chandler, 1984, 1990). In pure form, such an adjustment is unproblematic given perfect information of markets and prices; in practice, institutional regulation of the wage relation is said to compromise downward adjustment of the cost of labour. Thus, companies are pushed into more radical adjustment centred upon the reduction of their employment base (Bruno and Sachs, 1985; Layard et al., 1991, 1994; Phelps, 1994; CEPR, 1995).

The stickiness of the wage relation is therefore central to this conceptualisation. More specifically, profit squeezes are said to ensue when, during a phase of economic downturn, wages remain above the market clearing level, above the marginal product of labour at full employment (Bruno and Sachs, 1985). This occurs when the 'grip' of unions has not loosened

¹ This term has not got an unambiguous definition. Business and organisational literature may refer to it to indicate: re-organisation of production (elimination of product lines, plant closures) and/or re-organisation of work. In general, the term indicates all the strategies undertaken to relieve corporate cost burdens (Usui and Colignon, 1996), and as such is used in this thesis.

² By analysing the worrying trend of workers' dismissal from industry and the rise in the unemployment rate of certain counties, some observers have recently suggested that the UK's economy is undergoing a manufacturing recession (see Webster, 1999).

³ This has been the initial argument of a wider debate developed especially during the 1990s. This has focused on the factors (e.g. unemployment benefits, welfare protection) that, by affecting the supply side of the labour market, alter the level at which the wage clears it, and, therefore, the free working of demand and supply of labour (see Sestito, 1997). See also Bean, 1994.

and workers' representatives fail to acknowledge that a real wage problem exists (Grossman and Hart, 1981; Hall and Lezear, 1982; Calmfors and Driffil, 1988; Layard et al., 1991, 1994; OECD, 1994; 1997; Bean, 1994 for a review). As a consequence, companies are obliged to adjust to adverse market conditions by reducing employment rather than real wages.

The 'labour rigidity' argument⁴ has gained widespread acceptance outside the academic domain. Among policy makers, it is argued that for industry to produce at lower costs and increase its competitiveness in international markets it is necessary to slacken labour legislation and allow the free working of labour market (OECD, 1997; 1994; CEPR, 1995). An efficient organisation of work is required to respond to the imperative of flexibility of adjustment of supply to demand and to provide flexible and cheap labour. This is deemed possible primarily through the use of flexible work contracts and the outsourcing of services and intermediate production processes (Carabelli and Tronti, 1999). In the prevailing view, therefore, restructuring paths should be nested within a new socio-economic paradigm which replaces collective bargaining and state-mediation with corporate-driven flexibility and entrepreneurialism.

I wish to argue in this thesis that the insights provided by the new orthodoxy on redundancies are theoretically and methodologically flawed. The conceptualisation of corporate restructuring in terms of economic rationality and market competition, whereby companies pursue profit maximising behaviour, fails to consider both the particular nature of the wage relation, and the unique manner in which companies assess situations and set objectives to maintain their profitability. By defining the price of a special commodity (labour), that contrary to others needs to be reproduced, the definition of the wage cannot respond merely to economic laws (Marx, 1977; Polanyi, 1944; Peck, 1996; Picchio, 1992). Second, the thesis that rational behaviour is compromised by the system of employment relations as it reduces the downward pressure on wages, depicts a highly stylised economic scenario. In this view, any company regardless of size, sector, location, etc. would assess and respond in a predictable way, through restructuring and redundancies, to wage pressure on profits. I argue instead that not only may the causes compromising profitability levels have a variety of origins, but in many cases companies do not find it profitable to enforce a reduction of the wage level because of its possible negative effects on workers' productivity. In addition,

⁴ It has been a popular argument within much of the most recent economic literature, for instance, to contrast the performances of the USA and European labour markets and to attribute the lower levels of unemployment of the former to the minor institutional regulation of the labour market (Layard et al., 1994).

profitability is a relative measure: it varies according to sectors and, within them, between companies and its definition is concretely mediated by a series of non-economic factors, such as ethical norms of behaviour, stability of the workforce base, etc. (see, among others, Akerlof and Yellen, 1986; Solow, 1980).

From a methodological perspective, the emphasis of the new orthodoxy falls upon the economic determinants alone. Company patterns of adjustment are uniform, definable a-priori and centred almost exclusively upon the labour dimension; their role as that of workers or other collective agencies (e.g. trade unions) becomes of reaction or perhaps of support. Indeed, restructuring processes and employment change are seen as events that happen to people whose strategies cannot affect them. By the same token, redundancies are accounted as the inevitable result of company economic attempts to return to profitability, treated as unproblematic and discrete events.

There are many other explanations of industrial unemployment which seem to have been silenced and which I wish to re-consider in this thesis. Their insights on macro-economic dynamics, I argue, are important in the understanding of wage determination and of restructuring and employment change. In Keynesian economic theory, changes in employment levels are connected to the macro-economic conditions of the economy, namely its demand-side fluctuations, rather than to the level of wages. Yet, it is employers' investment decisions, assumed when the level of real wages is not known, to determine the contraction or the expansion of the workforce level. It follows that, regardless of micro-economic problems, the fall in demand may determine the conditions for a plant to reduce capacity, or to close. Redundancies represent the inevitable outcome. In Marxian political economy, industrial unemployment is a structural condition of capitalist societies and arises as the ineluctable result of capital's ceaseless search for profit through the intensification of work. Markets' saturation leads to under-utilisation of capacity if surplus is not absorbed by consumption. Yet, also in this case, it is the level of unemployment that determines the level of wages and not the reverse. Then, the explanation of industrial unemployment by Schumpeterian theory centres upon the cycles of economic growth, determined by technological change. The obsolescence of a company's technological endowment, for example, determines the conditions for a downward phase of the cycle to occur, with consequent loss of jobs.

Other accounts of industrial unemployment have been provided, from a micro-economic perspective, by the efficiency wage models. Departing from the conventional neo-classical approach, such models have emphasised how firms tend to set wages at a higher level than the market clearing level precisely to ensure above-average levels of productivity. Additional pay, reflecting individual or collective preferences, serves as an incentive. In any case, it is shown that firms often find it unprofitable to cut wages (Akerlof and Yellen, 1986).

The interpretation of industrial unemployment provided by the old institutionalist tradition as well by recent developments within this stream of literature, namely the regulation and convention theories, significantly distinguishes itself from conventional economic analyses. Industrial unemployment is explained as the result of regulatory deficits that emerge from the failure of institutions to compose the divergent interests between capital and labour expressed in the wage relationship. The latter is considered an institution itself, assuming a central role in the understanding of socio-economic dynamics within capitalism.

These alternative stances offer important counter-explanations of the phenomenon of industrial unemployment. In this thesis, I seek to develop an alternative approach to redundancies in the light of such theoretical positions. I focus on the intermediate institutions of the wage relation to reconcile the macro-economic perspectives and the preference models. My approach is nested primarily in the old institutionalist tradition of Thorstein Veblen, John Commons and John Clark. In this tradition, institutions, understood as formal and informal consolidated behaviours, are not simply seen as influencing and regulating actors' action but also as affecting their cognitive schemes. Accordingly, the understanding of redundancies and restructuring processes centres around the institutions that enter the process of wage determination. The latter comes to be treated as an institution itself and, as such, the outcome of corporate culture, the embeddedness of firms action in national and local institutional set-ups, the instrumental and symbolic relations firms entertain with their external environment. The emphasis of an institutionalist approach lies therefore less in the claim that organisational action is independent or adapts to the constraints of the market, but that organisations behave as part of pre-ordained institutional systems. Such systems influence company decisions as they do the definition of what is rational according to the particular institutional configuration. No economic action can therefore be read apart from a determined institutional framework which reflects specific historical and spatial features.

The conceptualisation of industrial redundancies and restructuring within an institutionalist perspective could constitute a potential breakthrough in economic geography, allowing to overcome the major shortcomings of conventional economic views on the theme and open new prospects for further research. The crisis of the traditional model of waged labour, as well of an industrial system that does not produce jobs in relation to its growth represent a challenge to traditional models of economic analysis and especially to current debates centred on the dichotomy flexibility-rigidity.

1.1. Research focus

The thesis investigates both the sectoral determinants and the place-specific variables that determine processes of employment and industrial change. By accounting for the formal and informal institutions, spatially and historically embodied that find expression in the wage relation, the thesis seeks also to highlight the various elements that frame the actions and strategies of companies, workers and other socio-economic groups (e.g. unions) to affect industrial restructuring and unemployment.

The main argument advanced is that industrial restructuring and redundancies are institutional constructions and geographically situated as such. This means first to acknowledge the irreducibility of economic transformation to pure market forces and to emphasise the salience of corporate practices in the explanation of the way in which profitability is pursued through adjustment dynamics and the employment change. Rather than considering industrial restructuring and redundancies as events caused by exogenous factors, the thesis investigates them as processes which account for the interplay of individual and group actions, in a particular moment and place. In doing so, second, such a conceptualisation highlights the spatial specificity of restructuring processes and redundancies. Institutional relations are geographically situated: institutional interaction is the expression of interests, constraints and opportunities of individuals and social groups that are continuously reshaped by external factors, by the interaction with the others and by cultural conditions that are spatially embedded and, therefore, respond to sedimented practices. In addition, as the argument on industrial and employment change suggested here brings back into account the role of agency in institutionally and spatially specific contexts, it acknowledges it as the outcome of open and indeterminate processes which are subject to political struggles, to societal values and norms that do not act neutrally. Third, on the role of wages, I argue that it is the ensemble of

relationships influencing the wage relation that provide companies with the stability necessary for their economic activity and allow them to respond to external perturbations while preserving their unity.

The thesis explores processes of corporate restructuring and employment change in two industrial areas, Teesside (UK) and Brindisi (Italy), by drawing upon the evidence from two industries: the chemical and the clothing sectors. Teesside and Brindisi are both facing, although with different intensity, similar challenges of industrial restructuring and employment change following the crisis of their dominant industries. Nevertheless, they have different institutional set-ups. Teesside is characterised by a culture of compliance and co-operation between employers and workers and by a weak trade union movement; these are the legacies of the pervasive paternalistic influence of iron and steel and chemical industries on industrial relations, strategies and policies of the local labour market. In Brindisi, the corporatist model of governance regulates labour market dynamics. However, the presence of informal economic activities implies that the micro-regulation of labour market dynamics is widely diffused and co-exists with the formal one. As labour is exchanged within broader social commitments, cultural behaviours and traditional codes assume a twofold function in the productive system and in the social context.

The chemicals and the clothing sectors display a difference in terms of the role of the cost of labour on the cost of production. Whilst clothing is wage sensitive, technological characteristics assume a primary importance in determining performance in the chemical sector. Such a diversity impacts also on the quality and quantity of the workforce required. In addition, the diverse features of the productive process of the two industries influence the character of industrial relations and, therefore, the process of wage determination.

Contrary, thus, to market-centred analyses, which envisage the convergence of firms towards a single, uniform form of restructuring synonymous with redundancies and employment change, my approach implies that restructuring is the outcome of a specific alchemy of internal corporation relations and interactions with the outside world. Concretely, the findings show that the response to similar economic pressures has generated in the two areas different patterns of adjustment producing diverse effects on company employment base. Yet, by focusing on the local environment in which companies are embedded, the thesis reveals how

place-specific social and historical practices represent important variables to explain redundancy processes in the two areas.

1.2. Research lay-out

Chapter two develops the alternative approach to industrial unemployment. It first offers a critique of the wage rigidity hypothesis rooted in the neo-classical paradigm. Then it offers sympathetic critique of other macro-economic conceptualisations, of preferences models, and of the institutionalist perspectives. By focusing on the formal and informal institutions that enter the process of wage determination, such an approach claims that industrial unemployment and restructuring are institutionally and spatially constructed.

Chapter three discusses the methodology behind the empirical work. It indicates the sorts of questions and methods to be pursued within an institutionalist interpretation of redundancies and industrial restructuring. It then outlines how the two case-studies were studied.

Chapters four and five present the details of restructuring in the two regional contexts. Each chapter is divided into three parts: the first presents a background analysis of the economic and employment trends in the area examined, while parts two and three are devoted to sectoral analysis. The aim of these two chapters is to provide an explanation of chemical and clothing company adjustment paths in each region; to shed light on the processes through which these have been pursued; to consider their implications on the sectoral relations of production and employment. The evidence presented suggests the multifaceted nature of the causes affecting company strategies of restructuring, which are shown to reflect sectoral or spatial specific dynamics or their combination, and complexity of their decision-making processes. These have emerged as the outcome of interactive processes involving companies, unions and workers and reflecting their strategies. It is precisely the combination of social practices, I argue, contributing to determine a specific corporate culture, to account for both the variety of restructuring dynamics and diverse impact on employment.

Chapter six is the comparative chapter. First, it highlights the sectoral determinants of the processes of industrial restructuring and employment change in the two case-study areas. It also points out the significance of geographical context: place-specific economic and social features contribute to explain the variety of corporate adjustments and their diverse impact on

company employment base. Second, in the light of the findings the chapter engages into the theoretical debate on industrial unemployment and processes of corporate restructuring. Rather than endorsing the convergence of corporations towards uniform patterns of industrial and employment restructuring, as suggested by market-centred analyses, I claim the complexity of the phenomena under investigation as well as their geographical specificity.

Chapter seven draws the conclusions of the thesis. It argues, against much of the academic and policy literature, that the formal and informal institutions regulating the relationships between capital and labour constitute a critical factor in explaining corporate performance and change. The approach to redundancies advanced by the thesis, assuming the centrality of regulation on the employment relation, allows us to transcend the debate on the false dichotomy 'flexibility-rigidity' and to reflect on the regulatory dilemmas on how to reproduce labour efficiently. Some policy implications are drawn.

Chapter 2 - Theorising industrial unemployment

2.1. Introduction

This chapter reviews the literature on industrial unemployment with the aim of delineating an institutionalist position. It starts by developing a critique of the neo-classical interpretation of the phenomenon. Although admitting the existence of imperfections in the labour market, due to “friction and ignorance about opportunities” (Kaufman, 1994:171), this view assumes that these imperfections can be eliminated by efforts to enable the perfectly competitive model. The price of labour (wage) is seen as the outcome of the rational decisions of companies, seeking to maximise their profitability function, and workers seeking to maximising their utility function. Industrial unemployment is explained as the outcome of the alteration of the mode of wage determination due to institutional interference and of company rational decisions to restore profitability levels. This argument, I argue, is flawed for its excessive emphasis on the cost of labour on company employment reduction.

The chapter offers, first, a sympathetic critique of macro-economic perspectives which delineate an alternative explanation of industrial unemployment. The Keynesian approach, the Marxist perspective, and the Schumpeterian theory of business cycles provide important insights on the macro-economic dynamics of wage determination and of restructuring processes and employment change. Then, the chapter reviews approaches focusing on the process of wage determination within firms. The efficiency wage model, for example, emphasises the active wage strategies of companies. Rather than being seen as victims of market dynamics altered by institutional defects, as implied by the traditional neo-classical perspective, companies are shown to deliberately set wages higher than the market clearing level in order to maintain or restore profitability. This model therefore suggests that wages and profitability are the outcome of complex decisions affected by factors such as corporate norms of behaviour, beliefs and culture, reflecting individual or collective preferences, that mitigate the rational and maximising behaviour of companies and workers.

Third, the chapter examines the potential of the ‘old’ institutional economics as well as regulation theory and the theory of conventions. These approaches interpret industrial

unemployment as the outcome of shortcomings emerging from the failure of institutions to regulate the divergent interests between capital and labour, or from the crisis of previous institutional arrangements expressed in the wage relation. The latter itself is considered an institution, holding a central role in the understanding of socio-economic dynamics within capitalism and their modification over time. The chapter suggests that intermediate formal and informal institutions impinge upon the determination of the wage relation. The account of the processes underlying actors' action lead to reconcile the macro-economic perspectives and preference models: both demand-side aspects of the labour market and social regulatory arrangements are deemed to explain, in a determined period and spatial context, specific employment/unemployment dynamics. Redundancies are treated as institutionally constructed and geographically situated processes.

2.2. The wage rigidity hypothesis and industrial unemployment

The interpretation of industrial job losses that has gained prevalence in the economic and policy debate⁵, principally on the crest of neo-liberal political rhetoric⁶, is rooted into the neo-classical tradition and focuses upon the relevance of wage rigidity on company costs in explaining the rise and the persistence of the phenomenon⁷. The neo-classical paradigm holds that the labour market is a competitive market, characterised, like any other market, by perfectly rational economic actors (individuals and firms) and it is self-regulating: changes in the price of labour (wages) and the geographical mobility of workers are deemed to be the mechanisms that clear the temporary excess of labour demand over labour supply, and vice-versa (Armstrong and Taylor, 1993). It is not assumed that the labour market works perfectly, e.g. at zero costs of mobility or with perfect information: the existence of imperfections in the labour market is acknowledged (Friedman and Friedman, 1979; Layard et al., 1994). The contention instead is that such imperfections, due to ignorance of and friction around opportunities, are relatively unimportant and can be eliminated if the perfectly competitive model is pursued. In particular, as synthesised by Winter (1993:180):

⁵ Much of the Organisation for Economic Co-operation and Development (OECD) economic recommendations are, for instance, based on economic analyses referring to demand and supply curves of neo-classical tradition (Sestito, 1997); the OECD 'Job Study' (1994) interpret unemployment as "the inability of OECD economies and societies to adapt rapidly and innovatively to a world of rapid structural change" (OECD, 1994:41). Nine types of intervention are indicated. Among these, one finds interventions towards the flexibility of labour time and wages; the reduction of the cost of labour as well as the reform of contracts concerning labour relations.

⁶ Refer, among others, to Gamble, 1988.

⁷ Refer to note 3.

“[in this view] firms are characterised by the technological transformations of which they are capable – formally by production sets or production functions. Like consumers, firms are unitary actors and are economically rational; more specifically, they maximise profit or present value”

This is rationalised as reflecting company interests under the prevailing assumptions of competitive markets, perfect contracts and optimal adaptation of their organisational and productive practices to the prevailing market price (Usui and Colignon, 1996; Williamson and Winter, 1993; Best, 1990). Although uncertainty in company decision-making process is contemplated, it is deemed unable to alter the actual outcomes in the market which benefits ultimately a situation of perfect information (Kaufman, 1994). During phases of market recession, input costs and output prices need to be modified to bring the organisation's operation into alignment with market rationality to return to a state of equilibrium. In pure form, the nature of such an adjustment is unproblematic given perfect information on markets and prices. In reality, it is claimed that a major restriction of the last two decades has been the inability of the industrial system to adjust to the changes required at the macro-economic level. Competitiveness is said to require flexibility in the adjustment of production to demand, and in the provision of labour at the lowest cost. The difficulty of promoting downward adjustment of the cost of labour is due to institutional regulation of the wage relation (e.g. union power). This forces companies to introduce a more radical adjustment mechanism, including making workers redundant (Bruno and Sachs, 1985; Crouch, 1985; Layard et al., 1991, 1994).

The stickiness of wages as the major variable in explaining company decisions concerning employment reduction is therefore central to this conceptualisation. Profit squeezes ensue when, during the phase of economic downturn, wages do not fall adequately and remain above the market clearing level, that is above the marginal product of labour at full employment (Bruno and Sachs, 1985). Wage rigidity with its negative effects on employment levels is to be attributed mainly, although not exclusively, to employment relations regulating the wages and conditions of labour. Specifically, union power has prevented worker representative from acknowledging that a real wage problem existed. As explained by Bruno and Sachs (1985: 196):

“ it is one thing to understand the ramifications of higher [cost of raw material], however, and another to convey them credibly to workers in the course of wage negotiations. Since firms have a natural incentive to overstate the need for real wage reduction, pronouncements by firms about a profit squeeze fall on sceptical ears. The result is that real wages do not fall as sharply as they would under full information ...”

As a consequence, companies are obliged to adjust to adverse market conditions by reducing employment rather than real wages and the nature of the lay-off process is random (Layard et al., 1994). On the same line of argument, Grossman and Hart (1981) have shown that workers are more likely to accept real wage cuts only in the context of layoffs: they tend to underestimate employer requests as they are believed to obtain wage concessions by falsely claiming an adverse shock. This stream of the neo-classical literature conceptualises redundancies in terms of economic rationality and market competition. It suggests, on the one hand, the uniformity of the adjustment path determined by a mono-causal explanation centred on the role of the cost of labour on company profitability and, on the other, “isomorphic employment practices” (Usui and Colignon, 1996:552). Job losses are the necessary outcome of processes of restructuring or plants closure dictated by levels of profitability jeopardised by institutional interference in the market. Context has no relevance in such economic and industrial dynamics; indeed, it is treated as a residual factor in addition to other variables.

The wage-gap hypothesis has several shortcomings. First, from a historical perspective, to blame industrial relations for the upward pressure of wages is flawed. During the last two decades, the bargaining capacity of trade unions has decreased consistently in all industrialised countries (Sestito, 1997). In addition, countries where unionism has shown a marked decline (e.g. Britain, France, the Netherlands) have performed worse in unemployment trends than those that were more heavily unionised (Sweden and Finland) (Nolan, 1994). Perhaps, it is because of such factors that, on the base of internationally equivalent micro-economic data sets, Blanchflower and Oswald (1994) suggest that wages are negatively related to the level of unemployment and that, indeed, the wage curve presents a downward-sloping shape (see figure 2.1.). Their work indicates four possible theoretical explanations for the interpretation of the curve. First, when the wage rate is high, it is in the interest of both firms and workers to ensure that as many as possible of those in the labour pool have jobs (contract models). A second explanation is that a high degree of joblessness tends to reduce workers’ capacity to claim wage benefits (bargaining models). A third explanation is provided by appealing to the efficiency wage models (see section four). In these models, firms pay wages higher than the market clearing level in order to avoid workers’ shirking at work. In a highly depressed labour market, however, employees are frightened of losing their job and so the extra pay can be comparatively low. Finally, the negative relation between wage and unemployment has been explained using the so-called idea of persistent dis-equilibrium.



Figure 2.1: The wage curve (after Blanchflower and Oswald, 1994)

Within a labour market that adjusts slowly, non-equilibrium states may repeat over time: depressive or recession phases may consequently have a negative influence on both pay and job opportunities.

Concretely, not only may the causes compromising profitability levels have a variety of origins but, as it will be shown later, in practice most companies do not find it profitable to enforce a reduction of the wage level because of its possible negative effects on workers' productivity (see section four). In addition, profitability is a relative measure. Indeed, what is an adequate rate of profit varies widely between sectors and, within sectors, between companies. Yet, it is shown that decisions about restructuring involve necessarily neither loss of profit (e.g. in cases of rationalisation) nor redundancies (e.g. in cases of intensification).

Second, this account theorises corporate restructuring in terms of profit maximising behaviour. As indicated by Winter (1993:188), profit is expressed in terms of "the mathematics of optimisation". Profitability is deemed not to be affected by any external condition and the costs associated with the cognitive operations to achieve optimisation are omitted. Indeed, company decisions are believed to be based on information available in the market, so that their path of adjustment consists of the mere search for an equilibrium between costs and prices. In contrast, Winter notes that rather than profit-making, companies are typically profit-seeking whose rationality is bounded (Winter, 1993); there are limits on the capacity to receive, store and process information. Uncertainty about the economic environment and its complexity makes company decision-making process difficult and characterised by variety, reflecting the unique manner in which they assess situations and set objectives. Yet, by assuming the mechanical nature of the formation of company preferences, the neo-classical conceptualisation underestimates such processes (Levine, 1998) as well the salience of context. Company and individual decisions and actions do not occur in neutral environments, independently from the socio-economic structure in which they are embedded. The interaction of structures and institutions, affecting the way in which decisions are made and different answers to stimuli provided, assumes a unique, distinguishing feature depending on particular contingent and sedimented conditions that vary according to time and space (Harvey, 1969; Gregory and Urry, 1985).

2.3. Macro-economic alternatives

2.3.1. The Keynesian interpretation of industrial unemployment

The understanding of the economic relations between companies, wages and unemployment dynamics provided by the Keynesian theoretical apparatus contrasts that of the neo-classical tradition. At a micro-economic level, it is recognised that a relation exists between wages and employment but of a reverse nature to the interpretation provided by the neo-classical approach through the Phillips' curve⁸ (Cahuc and Kempf, 1993). In the neo-classical perspective, profitability gains are reduced by inflation. As this is provoked by an increase in prices due to an increase in wages, the reduction of the level of wages is deemed to be beneficial for a temporary reduction of unemployment as companies are more willing to hire unemployed workers (Hoang-Ngoc, 1996). In the Keynesian interpretation, instead, it is not the wage that determines the level of employment but it is the level of employment that determines the wage. As explained by Hoang-Ngoc (ibid.), the decrease in nominal wages does not necessarily provoke a parallel decrease in real wages as the level of prices depends on factors connected to the uncertainty of adjustments between demand and supply: indeed, nominal wages and prices could vary in the same direction. In such a perspective, the major source of employment change is entrepreneurs' anticipations of their decisions concerning investment.

At the macro level, again in contrast to the neo-classical perspective, the Keynesian theoretical framework conceptualises the economic system as a system that does not move spontaneously to equilibrium. Indeed, it is irregular growth, determined by demand fluctuations, unforeseeable situations or erroneous economic calculations, that affects company decisions about investments which, in turn, determine unemployment dynamics and the level of wages (Hobson, 1922). Rather than being the labour market clearing mechanism, the wage represents one of the factors contributing to the instability of the economic dynamic: indeed, the economic system is characterised by the slow reaction with which wages and prices respond to demand fluctuations. The stability of wages in case of a fall in product demand will determine a reduction of labour demand; conversely, a fall in labour demand will lead to a reduction of product demand, if prices stay stable.

⁸ This curve, used to explain inflation, relates the variations of wages and unemployment.

The combination of the micro and macro-dimension of the Keynesian analysis suggests that company profitability is seen as a function of the level of demand for products which individual firms and plants can do little to influence since it depends on overall demand. When demand falls, capacity may be rationalised and plant closures may occur (Fothergill and Guy, 1990). Contrary to the neo-classical position, the Keynesian conceptualisation leaves room for institutional intervention, namely demand-side policies which, by stimulating industrial activity, would positively affect employment dynamics (Matzner and Streeck, 1991). In these views, the real limit to the growth of job opportunities lies in the fact that the productive potential of industrial systems is unable to ensure an appropriate level of investments.

The main contribution of the Keynesian theory on industrial unemployment lies in its emphasis on the strict relation between the growth of the economy and the growth of productive forces or, in other words, on the influence of demand-side conditions on both company performance and on the overall employment level. By pointing out the link between investments and employment levels, whereby the former becomes a function of the level of demand for products, this theory has “opened up the need for explanations of wage levels beyond marginal productivity ... and thus reserved an area for the impact of institutional and other social factors” (Kerr, 1994:73). Indeed, it leaves room for the influence of exogenous factors (principally expansionary measures) on wages. However, the exclusive focus on the level of effective demand as the source of employment growth leads this conceptualisation to neglect the analysis of the supply-side elements of the labour market (e.g. workforce characteristics, union presence, regulatory frameworks) that influence company behaviour and, consequently, their position in the market. In addition, by interpreting redundancies and restructuring as the outcome of a disequibrated working of the economic system, it fails to acknowledge that job losses, like any other economic phenomenon, are also determined by the interaction of economic dynamics at a supra-national scale (e.g. situations of over-capacity affecting a particular sector on international markets) and at a sub-national level (e.g. the profitability of a specific plant within corporate strategies). Contextual specificity is neglected within this view. Finally, from a policy perspective, the Keynesian interpretation is dominated by demand-side, state-centred, interventions; it under-estimates for instance the possibility that local policies to enhance the mobilisation of endogenous potential affect employment dynamics.

2.3.2. The Marxist perspective on redundancies

Within Marxian political economy, emphasising the conflicting relationship between capital and labour, industrial unemployment is explained as a structural condition of capitalist societies, even though its fluctuation is seen as the result of short-term dynamics related to the cycles of capitalist growth (Mandel, 1995). For Baran and Sweezy (1966), the capitalist search for profit gives rise to intense rivalry and competition between firms. This is pursued in part through technological innovation and parallel reduction of costs, resulting in the intensification of work (Sayer, 1989). This process, however, can ultimately lead to the under-utilisation of capacity if the surplus cannot be absorbed by consumption. Restructuring and redundancies follow as a consequence. Despite the centrality of the wage relation in the Marxist theory, wages alone are attributed a marginal role in explaining unemployment. It is the level of unemployment instead that has consistent effects on wages. According to Marx, wages represent a harnessing of the power to labour, “promising to expend labour in the interest of and under the direction of purchaser, in exchange for a sum of money, the wage” (Bottomore, 1984:265). Yet, the level of wages varies according to the demand and supply conditions of the market. The existence of almost permanent excess of labour supply over labour demand translates into a greater pressure on wages, whose level comes to be depressed by the great quantity of people available in the market.

Within the Marxian tradition, job losses are connected to the intrinsic logic of capitalist accumulation. In the long term, redundancies are ultimately the consequence of capital-labour competition through which capital manages to appropriate consistent shares of profit, given its pre-eminence within the relation. Marxian political economy thus emphasises the primary asymmetry of power within the labour market, considered the terrain of political struggles between capital and labour. It highlights the flaw of the neo-classical conceptualisation in ignoring the fundamentally political nature of economic processes. Marxism fails, however, to acknowledge that other, secondary, asymmetries exist among employers (e.g. between monopoly and competitive firms) and workers (e.g. unionised or non-unionised workers, gender or ethnic groups). In addition, no short-term condition is supposed to influence unemployment dynamics. Moreover, despite claims of historicity, the holistic conceptualisation of the capitalist system proposed by the early Marxist approach

becomes both trans-historical and a-historical and, as such, substantially insensitive to context specificity and spatial differentiation; redundancies and restructuring are therefore deemed to be disentangled from spatial factors.

During the 1970s attempts to develop a less deterministic conceptualisation of industrial unemployment and restructuring emerged within the Marxian tradition. One strand recognised the importance of the labour process and of spatial differentiation. The work of Harvey (1989), Massey (1995), Massey and Meegan (1982; 1985) but also Storper and Walker (1989) showed that a key to understanding employment dynamics is the geography of the relations of production. In their view, the spatial distribution of jobs, their availability and their features is related to the way in which production is organised over space. Redundancies and employment change are conceptualised as the outcome of a ceaseless de-valorisation of capital which entails specific implications for the geography of industry and labour. For example, in a well-known study, Massey and Meegan identified three forms of corporate restructuring: intensification, investment and technical change and rationalisation (Massey and Meegan, 1982). Confined to the existing geography of plants, intensification implies an increase in productivity achieved mainly through the re-organisation of work. Job losses occur when productivity grows faster than output. Investment and technological change consists of new productive capacity and may imply new plants and locations. In stagnant or declining industries, this combines with the lay-off of workers. Finally, the third form of corporate restructuring consists of rationalisation. Undertaken to reduce capacity, rationalisation is associated with plant closure, dis-investment and capital shift with their legacy of job losses. According to these authors, behind these patterns of restructuring lie the production processes which, recognised as social processes, help to explain employment decline. Following the same line of reasoning and focusing specifically on rationalisation, Bluestone and Harrison (1982:164-5) explain how:

“buying and selling entire businesses and transferring capital from one sector to another, relocate facilities to different parts of the country and to different areas of the globe” and especially “shift capital out of older industrial areas bringing about large scale redundancies should be read as the outcome of corporations’ active strategies to escape having to live with a labour force that, through the previous industrialisation process itself, has become costly”

These neo-Marxist positions provided a less deterministic account of industrial unemployment. By rejecting that company behaviour responds mechanistically to the logic of capital accumulation, they illustrate that the analysis of employment must be set in the context of broader social processes, both inside and outside the firm. The key issue is to

understand the reproduction over space of the social relations of production. Here too, however, there are some deficits. Paradoxically, the taxonomy of restructuring forms identified by Massey and Meegan, to which much literature has referred, ends up delineating a rigid framework of restructuring paths into which companies seem to fall as scapegoats of market dynamics. Despite recognising the production process as a social process, there is a tendency to emphasise the supremacy of market dynamics over the variety of adjustment paths that can be concretely undertaken by single companies and resulting from interactive processes involving also other individual (workers) and collective actors (e.g. unions, local institutions)⁹. In addition, market circumstances are not properly stressed. As pointed out by MacLachlan (1992), different types of market stimuli involve different restructuring paths.

2.3.3. Business cycles and the labour-saving effects of technological innovation

A different reading of industrial restructuring and employment change emerges from the interpretation of the Schumpeterian theory of business cycles (Schumpeter, 1968). Here, changes in the labour market are associated with particular technological transformations. Specifically, industrial unemployment is regarded as the effect of the downward phases of the economic cycle linked to the obsolescence of technological endowments. In contrast to equilibrium economics, Schumpeter proposes a disequilibrated model of economic growth characterised by partial crises and business cycles. A process of technological change, indicated as creative destruction, affects economic structure from within, and the firm is the principal agent of such transformations. Accordingly, rather than being considered as mere 'black boxes', transformers of inputs into outputs (Pitelis and Wahl, 1998), firms are conceptualised as active actors which seek to take advantage of resources and opportunities, to compete on the basis of new commodities, technologies and types of organisation rather than on prices. In this theoretical framework, the concept of profit also undergoes a re-configuration; it ceases to be a return to capital to become a return to successful innovation (Best, 1990). In this framework an industrial sector is more than a collection of individual firms producing substitute products. Indeed, the demise of an individual firm may be part of the process of creative destruction:

“a perfectly competitive industry that allocates efficiently in line with the neo-classical ideal is vulnerable to complete destruction” (Best, 1990:121).

⁹ In the wake of Braverman's study (1974), however, labour process studies have acknowledged the importance of workers' struggles in labour process dynamics. They also emphasise the need to account for the diverse regimes of labour control and the subject of it (refer to Peck, 1996).

Employment change is consequently connected to industrial cycles: the ability of entrepreneurs to create and exploit new opportunities for profit generates the conditions for full employment ensuring rising output and real wages (Goodwin, 1991).

The work of neo-Schumpeterian scholars has both complemented and partially revisited Schumpeter's initial theorisation (Hicks, 1973; Freeman et al., 1982; Dosi, 1982). Schumpeter did not explicitly discuss the possibility that industrial unemployment could be generated by displacing effects connected to technologies. As new industries and technologies are implemented, economies of scale can be exploited and the pressure shifts to cost-saving innovations. Neo-Schumpeterian analysis has therefore focused on the market mechanisms that allow the system to re-absorb job losses. These are mainly of two types: mechanisms based on prices and on income. In the first case, the labour saving effect of technological innovation gives the opportunity to sell goods for a lower price, with the consequent increase in demand generating more employment. In the second case, increased profits associated with technological change produces more investments and more employment.

Neglected both by neo-classical and Keynesian economics¹⁰, the study of structural change and technical innovation has provided a valuable account of the processes of change that relate industries and firms to specific employment/unemployment dynamics. The Schumpeterians point out that aggregate statistics tend to ignore the growth of certain industries and technologies and the decline of others, and also that, within the same industry, differences exist between firms that manage to adopt and exploit new technologies and those that lag behind.

The understanding of industrial employment change suggested by this perspective faces two major criticisms. First, the conceptual framework is dominated by a deterministic vision of economic events. On the one hand, companies turn to be trapped into the mechanical phases of business cycles which become the only parameters constraining or enhancing entrepreneurial action and restructuring processes (Best, 1990) and, on the other, job losses are the inevitable result of their reaction to external economic dynamics which urge them to continuous adaptive paths. Second, it has been remarked that a more appropriate analysis of

¹⁰ As Freeman et al. put it (1982), economic analyses acknowledge the great importance of technology. However, its complexity and diversity often lead them to treat it as given.

the effect of technological progress on employment cannot be limited to the labour market as it also affects the market of the factors of production (Vivarelli and Gatti, 1995; Vivarelli, 1991).

The approaches reviewed above have in common a macro understanding of economic action. In these views, redundancies and restructuring processes are understood as the inevitable outcome of economic structures impinging on micro-economic circumstances which the action of individuals can neither affect nor modify. All have a prevalence of structure over agency. In addition, instead of being the expression of specificity, context is considered as the container in which economic events take place.

2.4. Micro-economic perspectives: preference models

The approaches reviewed in this section focus on the wage setting process and place it in the arena where capital and labour relations historically take place, that is to say in the firm. The efficiency wage model holds that the determination of wages is based on conventionally neglected factors, such as beliefs, convention-based norms of behaviour, habits, etc., which reflect preferences and regulate actor action. These models reject the conceptualisation of the labour market as a perfectly competitive and self-regulating market, where wages are determined by the spontaneous adjustment of demand and supply of labour. They acknowledge instead that actor decisions are influenced by preferences that, in the context of the wage determination, are only partially driven by maximising behaviour. The wage relation represents the divergent interests of companies and workers: it affects company definitions of profit and productivity, and its strategies to achieve them.

The main contention common to all the efficiency wage models is that to ensure particular levels of productivity, companies tend to fix the wage at a higher level than the market clearing one. Behind this act lie economic and social motivations. Whilst the ultimate objective of companies is to obtain adequate levels of profitability and productivity, achievement hinges upon specific internal dynamics such as norms and codes of behaviour, control on the production process, stability of the workforce base, etc. Such models are therefore concerned with the factors which explain why firms often find it unprofitable to cut wages and industrial unemployment, even in adverse labour market circumstances, tend to stabilise (Akerlof and Yellen, 1986; Kaufman, 1994).

The models presented below have been gathered into three main groups, distinguished by the methodological tradition to which they belong, although they share common arguments (Costabile, 1995).

2.4.1. Approaches based on methodological individualism

Methodological individualism holds that individual agents have predetermined needs and tastes and are driven by the desire to satisfy them, whilst social institutions and norms of behaviour emerge out of their interaction and only to regulate the conflicts between individual and collective rationality. Capitalist firms thus represent an efficient solution to individuals' natural tendency to free ride: its profit maximising strategy is dictated by the need to control such a tendency (Shapiro and Stiglitz, 1985). Similarly, the rule excluding undercutting among workers emerges as a solution to their egoistic behaviour and to its disruptive consequences (Solow, 1980;1990).

A shirking model

The model elaborated by Shapiro and Stiglitz (1985) assumes the existence of an information asymmetry between employers and employees at the workplace. As the process of monitoring work is imperfect and the workers have some discretion in their job effort, it follows that they may have the tendency to shirk, for instance, by reducing their effort. To avoid this occurrence, firms are induced to raise the wage level. Therefore, workers receive wages that are higher than the market clearing level in order to increase their productivity. Their fear of being fired induces them not to shirk. At the aggregate level, higher wages will tend to reduce labour demand and, in consequence, the resulting equilibrium envisages industrial unemployment. Those who are unemployed involuntarily and who would be ready to work for lower wages are not taken into consideration by firms because they will have an incentive to shirk.

A fairness-based model

Solow's contribution has sought to shed light on the reason that prevents unemployed workers from offering their work for a lower wage, especially when the rate of unemployment is high (Solow, 1980; 1990). According to Solow, the rejection of undercutting is due to a social norm that excludes it as a strategy in the labour market on the base of a fair behaviour among workers, employed and unemployed. The generation of the social norm derives from a process that is very similar to the prisoner's dilemma: after a first game that will give a sub-optimal result for each player who seeks to maximise their result, a strategy of co-operation arises as a solution. Fair play is dictated by an preference to maximisation that, however, may lead to individuals internalising new social norms¹¹. Firms may accept wage undercutting if there are workers ready to do so but if a worker undercuts, he/she might get the reservation wage¹² for future periods. It is for this reason that the strategy of undercutting may reveal counterproductive.

2.4.2. Approaches based on the social nature of preferences

The approaches gathered in this second group assume the social nature of preferences¹³. First, institutional arrangements and social dimensions are seen to influence the formation of individual preferences. Second, economic rationality is seen not to dominate individual behaviour. By internalising the norms and values of the society or system in which they live, individuals accept them as framework rules influencing their preferences. It follows that worker attitudes towards work are affected by their participation to workplace dynamics (Bowles, 1985) or by their perception of the fairness with which they are treated by the management (Akerlof, 1982; 1984; Akerlof and Yellen, 1986).

¹¹ A social norm is internalised when it becomes a rule of behaviour among workers who act in relation to an expected action. Individual strategies and self-interest guide human behaviour, but the social norm creates the harmony between individual and social rationality.

¹² This is the level of wage at which a worker is not willing to accept a job.

A shirking model

The contribution proposed by Bowles¹⁴ (1985) is based on the shirking model. Nevertheless, it differs from the one analysed above in that it attributes the existence of market imperfections to the prevailing institutional arrangements and to the conflicts arising among economic agents; the utility functions and preferences have a social rather than an individualistic foundation. According to Bowles, the firm is constrained not only by costs but also by the conflict of interests between employers and employees. These conflicts constrain the firm to a non-market clearing mechanism. The presence of unemployment is functional to retaining employer power, since a wage strategy that clears the market would make workers indifferent to being employed or unemployed. Contrary to the Shapiro and Stiglitz' s model of unemployment as the undesirable cost of keeping under control human nature, in the Bowles' model, industrial unemployment contributes to the maintenance of the prevailing institutional arrangements, preserving class distinction.

A fairness-based model

Akerlof's fairness-based model explains the failure of the wage mechanism to clear the labour market because of the existence of social norms, conventions and rules of conduct that, at the workplace, guide human behaviour according to principles that cannot be reduced to maximisation and instrumental rationality. On the basis of empirical research, Akerlof has shown that, contrary to any rational, economic calculation, employees can work more than that actually required by the firm following an 'effort norm', generated by a sentiment of trust and solidarity (Akerlof, 1982; 1984; Akerlof and Yellen, 1986). In return, they expect an appropriate, fair wage. This is why firms for example do not accept the offer of unemployed workers to work for the market clearing wage. This would in fact affect the solidaristic relationships existing in the firm. In other words, it is a social norm, in this specific case, the effort norm, that regulates worker behaviour and that makes the minimum wage a sub-optimal strategy for the firms.

¹³ This methodological approach should be distinguished from the more radical expression of methodological holism according to which individual behaviour is completely conditioned by social institutions (Costabile, 1995).

¹⁴ This model constitutes an attempt to complement, from a micro-economic perspective, the macro analysis put forward by the Marxian political economy.

2.4.3. Approaches based on competitive group strategies

The approaches below explain industrial unemployment as the outcome of opposing competitive groups in the labour market. Its presence is due to firm decisions to leave their wage levels unaltered.

The participation model

According to Weitzman (1986), the labour market is governed by a sort of agreement between firms and workers whose main elements tend to change very slowly. Contrary to the neo-classical position, the predominant situation in the labour market is wage rigidity. In a buoyant economy, the wage rigidity does not constitute a problem. In the opposite situation, instead, when for instance there is a contraction in the aggregate demand, unemployment is largely due to firm decisions to fire workers. The conventional solution consisting of a reduction in wages is deemed to achieve only a short-term equilibrium. In the long run, it will constrain spending capacity, with downward pressures on the whole economy. By contrast, it is argued that a reduction in the level of unemployment is possible by transforming the wage-based model into a system of worker participation. Then, workers come to be considered, and consider themselves, as affiliated to the firms: during periods of expansion, the profits are shared among them and more workers are employed. While the expansion in demand and workforce may reduce the share of profits for the existing workforce in some firms, the productive system at aggregate level will tend towards a higher level of employment.

Insider-outsider models

The 'insider-outsider' models explain unemployment as the outcome of the capacity of the supply of labour to influence the level of wages and of employment (Lindbeck and Snower, 1986). The basic assumption of these models is that employers usually face higher costs when substituting more expensive workers with cheaper workers, because new employees require a certain amount of training and time before they reach the optimal level of productivity. This is why often employers do not find it profitable to hire less expensive workers (outsiders), and offer higher wages to existing workers (insiders). This allows the insiders to maintain a level of wage that is higher than the clear-market one, despite the existence of a reserve of workers ready to work for less.

The efficiency wage models have opened important perspectives of analysis for labour market. By highlighting different corporate strategies in the pursuit of profit through the definition of the wage, all the models contrast with the traditional neo-classical approach which, instead, assumes that “firms do not really exist”¹⁵ and that wage determination is left to market mechanisms. In general, however, the main shortcoming of these models is that their analysis of economic dynamics is limited to the company level. This is especially true for the models based on methodological individualism, which tend to provide an account of firm wage setting process completely dis-embedded from the wider economic and social context. In reality, neither profitability nor the wage level can be considered as the outcome of merely internal decisions, both are affected by the macro-economic situations in which the company operates as well by policy choices. Profits are largely dependent on the specific economic conditions affecting a particular industry, while the wage level is sensitive to policy decisions affecting directly (e.g. the categories of workers called to participate to the labour market, such as young people, women, etc.) and indirectly (e.g. financial discounts for firms) labour market dynamics. Both dimensions are influenced by the institutional context in which a company operates. It is for these reasons that approaches assuming the social nature of preferences as well those pointing out the dis-homogeneity of the labour market provide a better understanding of the wider institutional arrangements and influences that affect company’s internal behaviour. However, a fuller account of the institutions influencing economic behaviour is needed in order to identify which institutions are significant in affecting the wage relation and how they influence it.

2.5. Institutional interpretations

2.5.1. Institutional economics

In recent years comparative work has come to stress the relevance of institutions in understanding restructuring and employment change. On the evidence that substantial cross-country differences exist, studies suggest that phenomena of employment and industrial change need to be explained by considering the institutional features of a corporate context (Usui and Colignon, 1996; Friedland and Robertson, 1990; Perrucci, 1994)¹⁶. For example,

¹⁵ Coase (quoted in Costabile, 1995:612).

¹⁶ The embeddedness explanation concerns the extent to which economic activity is mediated by networks of personal relations and by the institutional configuration of society (Granovetter, 1985; 1990).

company behaviour might be embedded in national institutional configurations which influence the interpretation of labour and associated costs, their decision-making processes, the selection of options and, ultimately, the definition of economic rationality.

The study of the institutions of industrial unemployment has a long, but neglected, history. It lies at the core of the theoretical apparatus advanced by pioneering ‘old’ institutionalists such as Veblen, Commons, Mitchell and Clark¹⁷ during the thirties. The institutionalist thought is profoundly anti-methodological individualism, as it sees the institutionalisation of economic activity as the crucial category for economic analysis. Defined as “way[s] of thought or action of some prevalence and permanence, which [are] embedded in the habits of a group or the customs of a people” (Hamilton, 1932, quoted in Hodgson, 1998:179), institutions are deemed to shape the economy and make it an instituted process. Institutions are formal (e.g. rules, laws and organisations) as well informal or tacit (e.g. habits, routines, social norms or values).

In contrast to the new institutionalist economics¹⁸, which sees institutions such as the state and firms, as co-ordinating mechanisms and explains their emergence in terms of the need to reduce market inefficiency, old institutionalism promotes an alternative conception of human agency. Habits and routines are believed to affect not only individual behaviour, but especially cognitive processes as well perceptions (Veblen, 1919). As explained by Hodgson (1998), habits are non-deliberative behaviours that arise in repetitive situations and come to explain individual rational choices. It is through the imitation and emulation of behaviours that habits enter the cognitive frame of individuals. Then, acceptance and consolidation within a group or a society leads to the emergence or reinforcement of institutions. In turn, they foster and underlie particular behaviours and habits and help their transmission to other members. In Commons’ words (1934:73-74):

“Instead of isolated individuals in a state of nature they are always participants in transactions, members of a concern in which they come and go, citizens of an institution that lived before them and will live after them”

¹⁷ As Barbash quoting Dorfman put it “Veblen furnished the theoretical stimulus for the development of the thirties, ... Mitchell supplied the statistics [but] it was Commons and his group in Wisconsin who ...invented institutions” (1994:59).

¹⁸ New Institutional Economics, represented primarily by North, Williamson, Coase, Aoki, Alchian Demetz, Schotter, assumes a model of rational behaviour. An initial state of nature without institutional arrangements is implied while the move from individuals, taken as given, to institutions is dictated by the enhancement of

It follows that, in the old institutionalist framework, institutions are regarded as imposing social coherence upon human activity through the continuing production and reproduction of habits of thought and action. In a context dominated by information asymmetry, market uncertainty and knowledge boundedness, individual decisions and actions need stable and mutual anticipations. Institutions provide with the appropriate stability of anticipations, by giving a solution to the limited rationality that characterises individual action in the market. The institutionalist perspective emphasises also the unpredictable and evolutionary character of social and economic relations: institutional transformation occurs as the consequence of unanticipated consequences; the loss of efficiency of the established institutional framework leaves room for other institutions to emerge in a process of mutual adjustment. Institutional change is the outcome of the action of individuals acting within groups which pursue objectives that are shaped by present institutions (Hodgson, 1992).

This theoretical framework sharply contrasts the neo-classical thought. For the latter, individuals are rational and maximising agents. Their (maximising) utility function is driven by a cognitive framework which does not contemplate uncertainty: actors are portrayed as having a complete overview of all possible choices and understanding of their consequences. Institutions are seen as market imperfections, as distortions to equilibrium.

2.5.2. The wage relation and the problem of industrial capitalism

2.5.2.1. *The specificity of the labour contract and the analysis of the institutions of labour*

The framework advanced by the old institutionalist scholars clearly implies a radical reconsideration of the concept of market. Rather than the realm of economic transactions occurring independently from societal institutional arrangements, the market comes to be considered as an institution in itself where exchanges are organised around, and based on, economic, legislative and ethical rules, all historically determined. With concern to the labour market, the point of departure of institutionalism lies in the recognition that labour differs from true commodities. Commons (1924), whose work has had a major impact on the development of the institutionalist perspective in labour economics, insists on seeing labour as a human action, a human power that synthesises worker willingness to work and the institutions regulating it. Thus, whilst, like other transactions, the exchange of labour is based

economic efficiency. Institutions influence individuals' preferences and interests and shape their interaction: underlying this there is a conceptualisation of institutions as ex-post co-ordinating mechanisms (COREI, 1995).

on worker and company freedom to engage and disengage, the qualitative difference lies in the fact that the human capacity– the goodwill, the willingness to work – has no exchange value. Indeed, as indicated in this passage:

“what he sells when he sells his labour is his willingness to use his faculties according to a purpose that had been pointed out to him. He sells his promise to obey commands. He sells his goodwill. But even this promise has no exchange value” (Commons, 1924:284).

The institutions that regulate the relationship between labour and capital become therefore central in the institutionalist analysis of labour relations and industrial performance. They are defined as determining the content and coherence of labour provision and are not independent from the other institutions of society (Rodgers 1992 quoted in Bazzoli, 1994). Wage bargaining is the most immediate expression of the institutions of labour as it synthesises a contractual relation in which capital and labour divergences may find a balance. Indeed, the contract concerning the economic value of the exchange crystallises nothing else than individual willingness (Hodgson, 1988). In the institutionalist conceptualisation, wage bargaining does not account simply for the monetary exchange value of labour, but above all for the ensemble of the conditions of labour. Specifically, the employment relation is seen as a process of continuous negotiation which links the efficiency of labour to a non-contractual factor, that is goodwill. The latter is the result of relations of mutual trust between employers and workers that cannot be specified when the contract is stipulated but that can be obtained only through mediation.

A typology of the institutions influencing the wage bargaining can be delineated from Commons (1924; 1934) who identifies three types of institutions of labour which intersect to obtain goodwill (table 2.1.). The first type, whose underlying economic principle is rarity, addresses the exchange between individual actors. The second type of institutions regulate the production between hierarchical actors following the principle of efficiency. Finally, there are institutions that regulate collective action: the underlying economic principle responds to futuribility or security of anticipations. According to Bazzoli (1994), these institutions can be distinguished at two levels: on the one hand, institutions where transactions take place (the market, the enterprise, the state); on the other, institutions that regulate the transactions (rules of exchange, of use and distribution). It follows that the rules of exchange and the norms that protect labour emerge from exchange transactions. This constitutes the dimension related to the labour contract. Transactions concerning the organisation refer to the rules of direction that define the labour process.

Table 2.1. The institutions of labour according to the taxonomy indicated by Commons (1924)

Institutions	Institutions where transactions take place	Formal and informal institutions regulating transactions
Transactions		
BARGAINING TRANSACTIONS	MARKET	RULES OF EXCHANGE
Exchange	Resources allocation	Institutions recording the contract
	Organisation of the exchange of labour force	Institutions concerning specifically the labour contract (rules to fix wages, specific obligations for employers and employees, rules to access/exit jobs)
MANAGERIAL TRANSACTIONS	ENTERPRISE	RULES OF USE
Production	Resources creation	Organisational principles and rules (co-operation, hierarchy, performance evaluation)
	Organisation of the labour process	Rules of co-ordination, control and mobilisation of the workforce
RATIONING TRANSACTIONS	STATE	RULES OF DISTRIBUTION
Collective negotiation and regulation	Division of costs and benefits of economic activity	Field, competence and mode of public intervention
	Bargaining organisation at central and local level	Institutions regulating professional relations and conflicts and institutions produced by collective negotiations (employment norms, status, classification)

Source: Adapted from Bazzoli, 1994

Finally, rules of participation and distribution define a specific way of governing industrial relations (this concerns the sphere of transactions concerning regulation). To each of these constituting dimensions of wage bargaining is attached a series of formal and informal institutions which reflect the economic system and the social organisation of production, historically determined.

The enterprise, constitutes the locus in which such dynamics take place. As indicated by Perroux (quoted in Bazzoli, 1994), the enterprise is the place where an organised process contributes to create wealth and is the heart of the historical dynamics of capitalism and of the social relations upon which it relies. However, the enterprise is also at the centre of problems. It is the place where the conflicting and divergent dynamics of capital and labour occur and manifest themselves primarily in the definition of production and efficiency.

2.5.2.2. Unemployment as the problem of industrial capitalism

The problem of labour is therefore essentially an industrial problem and the generation of unemployment constitutes its major paradox. Unemployment is the dimension that reveals the existence of a problem within the traditional industrial organisation of labour and that raises questions about its economic viability –as a source of economic efficiency- and its institutional viability– in its capacity to evolve and ensure social cohesion. In Commons' view (1924), but also in Clark's work (1923), at the heart of capitalism and its evolution lies the conflict arising between social institutions and forms of production. Specifically, the divergence between capital and labour, manifesting primarily in the enterprise, lies in the definition of the production process and its efficiency, and in the way in which profit is pursued. Commons distinguishes two ways of obtaining profit: one is through scarcity, the other through efficiency (Commons, 1924). In the first case, profit is made by increasing market prices or reducing wages - this type of profit is obtained principally through effectiveness in bargaining. The second way of making profit lies in the efficiency of production whereby profit is obtained through increases in productivity or the reduction of product costs, without raising prices. It is the pursuit of profit through scarcity, dominating capitalist enterprises, and the incomplete nature of the contract, regulating the pure exchange of labour, that leads to a conflicting organisation of work and lack of democratisation in the economic system. As explained, the labour contract lies in an ambivalent relation which is not considered in the legislation (Bazzoli, 1994). On the one hand, there exists the legal

relation in which employers and employees have the same bargaining capacity: the freedom to engage or not in the contract, although bargaining power is uneven¹⁹. On the other hand, the contract sanctions nothing else than an agreement with which the worker sells his capacities and their utilisation by the employers in the organisation of production.

It is for this reason that both Commons and Clark stress the centrality of wage negotiations which, by affecting the willingness to work, impinge upon the process of accumulation and labour conditions. Industrial goodwill is the dimension of production without which the other factors of production cannot work efficiently. It follows that the problem of labour, hence the problem of industrial capitalism, cannot be avoided simply by increasing productive capacities without enhancing the willingness to work.

The transformation of such relations within enterprises towards the account of the social costs of labour could, in Commons' view, overcome the conflicts related to the pursuit of profit through scarcity and lack of co-operation in the workplace. This poses the question of the social value attributed to labour. It appears clear that, in contrast to conventional understanding, the institutionalist perspective put forward by Clark and Commons treats the cost of labour not as a variable but as a fixed cost. The continuity and stability of its provision affect the efficiency of the organisation and, in such a way, labour becomes a social cost. For entrepreneurs, however, it is merely a variable cost; they generate costs that are not accounted at firm level but are passed onto society. In the capitalist organisation of production, therefore, the cost of labour catalyses the fracture between individual and collective dimension.

Commons (1924) suggests that negotiation implies the institutionalisation of trade unions. Trade unions are not agents accepting the definition of the organisation of production dictated by capitalist enterprises nor revolutionary forces aiming to reverse industrial and societal principles. They are rather conceived as economic and political institutions contributing to the regulation of the disputes arising in the economic realm: therefore, they are seen in pragmatic terms (Bazzoli, 1994). In Commons' view, trade unionism is the institutional and counterbalancing force within the capitalist organisation of economy and society. It contributes to the achievement of better work conditions through the process of negotiation. Industrial relations are therefore characterised by a continuum between

¹⁹ This is because their economic freedom has not the same nature; by alienating their 'property' through the sale

conflicting and common interests in the definition of the 'rules of the game'. Specifically, collective bargaining is a process of negotiation whose regulatory outcome represents the compromise that, in a determined historical moment, becomes the macro-rule governing industry. Such a process is clearly influenced by the multiple interests existing in the economic and social realms. Yet, in contrast with the Marxist perspective, institutionalism denies the existence of two classes struggling for the control of the means of production. Instead, society is articulated into a variety of different groups, all bearing equal values and rules which, if disposing of the adequate material and/or symbolic resources, could become a legitimate institutional framework. Rather than by exploitation, their relations are dominated by power relations which are the main determinants of institutional change.

The originality of the institutionalist tradition with respect to the positions reviewed previously lies in the fact that it approaches industrial unemployment as the outcome of processes of institutionalisation and regulation. Industrial unemployment is conceived as the result of institutional shortcomings whose primary explanation lies in the complex dynamics concerning the wage relation. For instance, institutions governing the production process affect corporate performance as they regulate, among other things, the understanding of productive habits. Conflicts on the way in which resources are managed and work organised may lead to mistrust and disputes which impinge on the efficiency of labour. However, whilst interpreting industrial unemployment as an institutionally constructed phenomenon, the institutionalist tradition fails to acknowledge that processes of wage determination and, ultimately, the regulation of the employment relation assumes a significant geographical component. That is, industrial unemployment is institutionally constructed and is such in geographically distinctive ways. Indeed, institutional inter-dependences are geographically situated: institutional interaction is the expression of interests, constraints and opportunities of individuals and social groups that are largely embedded in contexts and respond to sedimented practices.

2.5.3. The current debate: regulation theory and the theory of conventions

The problem of labour is at the centre of the analysis of other two streams of thought which whose theoretical apparatuses show clear points of convergence with the old institutionalist tradition. Both regulation theory and the theory of conventions concentrate on the problem of

of their labour, workers are dependent on their employment.

labour through the investigation of the wage relation and labour institutions and their transformation over time. Like the old institutionalism, they reject the assumptions of neo-classical origin that: the wage relation is the mechanism ensuring the equilibrium between demand and supply of labour; and that labour contract ensures the complete efficiency of labour.

2.5.3.1. Regulation theory

Rooted into Aglietta's work of the end of the 1970s (1978) and fully developed by Boyer (1988; 1993), the project of regulation theory includes investigating the problem of labour. It focuses on institutions, conceived as systemic regularities, that channel economic activity and its reproduction, and, in particular, on the institutions of labour. Regulation theory holds the existence of a strict relation between the *rapport salarial*, or wage relation, and the overall pattern of regulation of a socio-economic system. Specifically, the wage relation is deemed to subsume a regime of growth through the regulation of contradictions and conflicts emerging between the limits of the economic system and the strategies of social groups (Bazzoli, 1994; Peck, 1996; Boyer, 1993). The wage relation represents the concrete institution in which the relation between capital and labour is stabilised and the necessary coherence between the accumulation system and the mode of social regulation is concretely ensured²⁰. It follows therefore that institutions have a meaning only in relation to accumulation, they are subject to crises and, therefore, assume historical and evolutionary forms. As the concept of regulation takes form at the macro-economic level, the employment relationship becomes the key macro-historic form to investigate and understand capitalist dynamics. Indeed as indicated by Boyer (1988:10):

“[the regulation approach] is sufficiently broad for us to be able to anticipate a priori close linkages between the form of wage/labour relations and the method of regulation ... [to a considerable extent] economic crisis and change and change in the wage/labour relations determine one another”.

The crisis of Fordism, according to Boyer, is the crisis of the employment relationship that dominated capital–labour relations after the war. It is during the 1970s that the archetypal

²⁰ The regime of accumulation comprises two elements: an accumulation system (a production-consumption relationship) and a mode of social regulation. An accumulation system is defined as a way of dividing and systematically re-allocating the social product. The mode of social regulation is an ensemble of regulatory mechanisms (habits, norms, customs) that allow a regime of accumulation to be realised (Peck and Tickell, 1992).

pattern of regulation, associating the Fordist model of employment relations²¹ to the Keynesian management of economy, entered a deep crisis. The end of the phase of intense accumulation that had benefited companies from the post-war period until the beginning of the 1970s, based on mass production, and that had been sustained by national, expansionary, policies signalled both the transformation of the canons for economic competitiveness and the mode of social regulation. As competitiveness started to be ensured by an increasing variety of products on shorter time scales, in smaller quantities and at lower prices (e.g. Sable and Piore, 1984), a debate emerged on the need for different institutions of labour which would second such production needs (see Gorz, 1999). From the mid-1980s onwards, therefore, labour economics has been characterised by the debate claiming the flexibilisation of wages and employment relations (Jessop et al., 1991; Peck, 1996). What is at the core of this transformation is clearly indicated by Boyer (1988:252):

“the debate about flexibility and its methods is assuming the traits of a proper challenge which does not refer to the simple adjustment in the economy but it will carry to a total redefinition of wage-labour relations and other forms of organisation”.

The problem of industrial unemployment derives therefore from a paradigmatic crisis that has emerged from the mismatch between regime of accumulation and mode of social regulation. Specifically, it is the modification of the institutions regulating the employment relationship and, therefore the primary relations between capital and labour, to promote the modification of the overall social rules connected to them.

The contribution of regulation theory lies in the consideration that institutions and the regulation of the asymmetric relationships between capital and labour are at the core of the analysis of capitalist economy and its transformation. By focusing upon the macro-dimension of the analysis neglected by the old institutionalist tradition, regulation theory holds the centrality of the role of the wage relation in the economy as, in the long-period, it conditions its dynamics. Nonetheless, its conceptualisation of the employment relationship has some shortcomings. First, the macro significance of the wage relation, as conceptualised by the regulation school, allows little account of the processes of collective negotiation underlying it, the compromises emerging from it in a specific historical period. Indeed, regulation theory is neither a theory of collective action nor a theory of negotiation. The categories of analysis are such that they end up hiding both the plurality of economic actors and the logic driving

²¹ This model attempted to unify the collective interests of capital and labour around a programme of full (male) employment and universal welfare. The wage relation, left to collective bargaining, acted as a source of domestic consumer demand (Peck, 1996).

their actions which, in fact, disappear behind macro-economic processes. As argued by Bazzoli (1994), regulation theory lacks of a substantial theory of institutions; it proposes them in relation to what they do rather than analysing them for what they are. Thus, questions arise about the capacity of this theory to endogenize institutional change and historicize economy.

Second, regulation theory reduces institutions to differences between national social formations (Michon, 1992, Peck and Tickell, 1995). In addition, intra-national variability is seen as a contingent variability around dominant historical-national models. What is pointed out by critics is that what matters is not simply that institutions have effects, but an evaluation of the effects when and where they occur. Peck (1996), for example, argues for the importance of accounting for the sub-national level of regulation so to understand of what national systems are constituted.

2.5.3.2. The theory of conventions

The theory of conventions²² has achieved a major role in the economic analysis of institutions and labour starting from the work of Boltanski and Thevenot (1987). Its project is twofold: on the one hand, to provide a theory accounting for human action in the economy as the neo-classical attempt to explain it through universal intentions and rationality is rejected, and, on the other, to build a general model taking into account the different forms of co-ordination existing in the economy and provided by conventions. The analysis is centred on the understanding of actor action in an economic context that is assumed to be characterised by uncertainty with respect to the performances and expectations of other actors. As Storper and Salais put it (1997:16):

“the different pragmatic tasks of any economy require co-ordination between the individuals who engage in them and this co-ordination can only come about when their interpretations lead to a sort of “agreement” about what is to be done in the sense that what each person does meets the expectations of the others on whom he or she depends”.

Within this view, co-ordination is achieved when actors define a set of common references, indicated as conventions, that go beyond the actors as individuals, but which they nonetheless

²² As clarified by Bazzoli (1994), different streams of research refer to this theory: the economy of enterprise, labour economics and the theory of the actor. The main scholars are identified in Thevenot, Salais, Orlean, Favereau.

build and understand in the course of their actions. Conventions emerge as definitions of, and response to, uncertainty; they are attempts “to order the economic process in a way that allows production and exchange to take place according to expectations which define efficiency” (Storper and Salais, 1997:16). Conventions are accepted because of the routinised nature of relationships which then favours their collective legitimisation.

Specifically, convention theory maintains that work is characterised by uncertainty. This is because of the nature of labour and of the employment relationship. This composes two divergent interests (capital and labour) in three different moments (hiring, use and dismissal of labour) by compromising the ability to obtain labour efficiency. The objective is therefore to understand the social forms that reduce uncertainty connected to the wage relation and that allow its efficient regulation. The wage relation comes consequently to be re-interpreted in terms of conventions of labour. Salais (1989; 1991; 1992) distinguishes two major labour conventions: one concerning productivity levels, the other the quantity of labour employed or unemployed. The convention of productivity, involving work routines, customs, shared skills, etc., concerns worker acceptance of making concrete efforts in return of a wage. However, when expectations are not met and the product remains unsold, a second labour convention emerges, the one of unemployment. Such a convention implies an ex-post adjustment of the number of workers but also the modification of work time or expectations, without compromising the convention of productivity of those workers who maintain their jobs. Within this conceptualisation, therefore, the wage relation and unemployment become the instruments regulating the activity and the quality of labour.

Like the old institutionalist tradition, convention theory emphasises the cognitive processes connected to social interaction. This focus allows, on the one hand, the understanding of the limits of actor behaviours and, on the other, the process of rationalisation operated by institutions. In this sense, conventions represent the mechanisms allowing a micro-coordination of economic behaviours which give coherence to the employment relation. The major deficit of this theory lies instead in its account of the evolution of economic system, more precisely, of the conventions that constitute their framework of coherence. Thus, while acknowledging the inherently temporal nature of conventions,

“[convention theory] remains a vision where the change of convention occurs because of the incapacity of the previous one to interpret the “noises” coming from the outside” (Bazzoli, 1994:357).

It follows that the stimulus to change assumes an exogenous nature and conventions are deemed not to have any internal contradiction. Yet, with concern to the scale of analysis, convention theory is “comfortable with plant-, industry-, and (sometimes) regional-level of analysis” (Peck, 1996:102), while remaining sceptical about generalisations referring to national models. In a parallel fashion to the regulation theory, but due to an opposite theoretical apparatus, convention theory seems to fail to acknowledge the salience of the changing relations within and between scales.

The originality of the stances presented above lies in the interpretation of industrial unemployment as an institutionally constructed process. In contrast to the neo-classical view, for which the wage relation exclusively regulates the monetary exchange of labour, all three positions reviewed above hold the centrality of the employment relation in determining labour market dynamics and, specifically, the employment/unemployment balance. Further, they conceive the employment relationship as the expression of the ensemble of institutions that regulate capital and labour dynamics in the capitalist economy. The problem of labour is therefore interpreted as the outcome of regulatory shortcomings unable to compose and mediate the divergent, asymmetric, tensions afflicting capital and labour relations within capitalism. At company level, an efficient organisation and co-ordination of the labour process needs the deployment of willingness, knowledge and productive habits. As labour is action, and, therefore, judgement, discretionary choices, control, and production is an institutional process of creation of knowledge and goods, the central issue is to mobilise resources and worker co-operation. The rules governing the production process and employment relations impinge upon the efficiency of labour as they produce knowledge, regulate the understanding of collective norms and the management of the factors of production. It follows that, for instance, the lack of co-operation between employers and workers, of sedimented practices affecting the transmission of technical knowledge, of representation of worker rights, are all factors influencing the non-contractual conditions of the employment relation that are, however, important for corporate performance and employment/unemployment dynamics.

The compromise of company performance and its impact on employment levels can also derive from the way in which the employment relation is conceived at collective level. The processes of negotiation, expression of social processes creating rules, are central both to employers, as they condition the process of accumulation, and to workers, as they allow the

amelioration of their conditions. Lack of regulation or uneven power relations between employers and workers in the bargaining process amplify conflicts between capital and labour and impact on company performance. Also the institutions that come before, such as the educational system, and that follow the employment relation, such as arrangements for retired workers, are important in defining the relations between capital and labour. At collective level too, relations of confidence are a social construction which depends on the institutional framework constituting a mediation of divergent values and interests among social groups.

The focus on institutions paves the way for a theory of industrial unemployment characterised by complexity (accounting for the action) and evolution (accounting for transformations). These dimensions are precisely the ones that the conventional economic analysis cannot explain: the structuration of society, the role of groups as well as the underlying power relations for the imposition of divergent interests cannot find an account within such theories that, by being interested exclusively in the dynamics of market forces, consider them as given.

The three institutionalist positions reviewed also share a common limitation. Whilst the analysis of the wage relation within the old institutionalist theoretical apparatus neglects the spatial specificity of institutional interaction, regulation theory and theory convention tend to situate themselves virtually at the opposite end of the spectrum with concern to the issue. On the one hand, the conceptualisation advanced by regulation theory leads to the effacement of intra-national variability, as institutional arrangements, crystallising the social 'pact' between economic actors, provide the necessary stability to the national system of accumulation. Variability underlying institutional interaction at the diverse local levels is deemed to be a mere reflection of the national model. On the other hand, the theory of conventions lacks any effort towards generalisations; by maintaining a more contextual orientation, this literature is less able to produce a more comprehensive theoretical framework.

2.6. Conclusions

This chapter has built towards an institutionalist framework for understanding industrial unemployment (see table 2.2. for a summary of the diverse theoretical positions). The approach proposed distances itself particularly from the orthodox model and its interpretation of industrial unemployment centred upon the negative role of wages on company profitability and efficiency.

Table 2.2. Theoretical positions, key authors and causal bases of industrial unemployment

Theoretical positions	Key authors	Causal bases of industrial unemployment
Wage-gap hypothesis	Bruno and Sachs, Crouch, Layard, Nickell, Jackman, Grossman and Hart, Phelps, OECD, CEPR	Wage rigidity, institutional regulation of the employment relation, trade union power, welfare system
Keynesian interpretation	Keynes, Robinson, Hobson, Cahuc and Kempf, Hoang-Ngoc, Fothergill and Guy, Michie, Matzner and Streeck	Employer investment decisions, level of aggregate demand
Marxism	Marx, Baran and Sweezy, Mandel, Bowles, Brenner	Conflicting relations between capital and labour, under-utilisation of capacity determined by surplus not absorbed by consumption
Neo-Marxists	Harvey, Massey, Meegan, Walker, Bluestone and Harrison	Social relations of production, organisation of production over space
Schumpeterian theory	Schumpeter, Hicks, Freeman, Soete and Clark, Dosi	Business cycles determined by technological transformation
Preference models: - based on methodological individualism	Shapiro and Stiglitz	Wages higher than the market clearing level because of information asymmetries between employers and workers at the workplace
- based on the social nature of preferences	Solow	Rejection of undercutting by unemployed workers
- based on competitive group strategies	Bowles	Wages higher than the market clearing level because of the conflict between employers and workers at the workplace
	Akerlof, Yellen	Wages higher than the market clearing level because of solidaristic relationships between employers and workers at the workplace
	Weitzman	Wage-based model hinged upon divergent interests between employers and workers
Old Institutionalism	Lindbeck and Snower	The costs for the substitution of existing workers are higher than the savings obtained hiring cheaper unemployed workers
	Veblen, Commons, Clark	Divergence between capital and labour in the definition of the production process and of efficiency, failure of the traditional wage relation to consider the institutions that allow to obtain goodwill
Regulation theory	Aglietta, Boyer,	Mismatch between regime of accumulation and mode of social regulation
Theory of conventions	Boltanski and Thevenot, Salais, Storper, Orléan, Favereau	Ex-post adjustment when expectations concerning production are not met, means to regulate the activity and the quality of labour

It considers the contribution of the macro-approaches reviewed above, with their insights on the macro-economic dynamics affecting the employment relation, and of preference models assuming the social nature of preferences that, from a micro-economic perspective, shed light on the active wage strategies of companies. In addition, following the institutionalist tradition, the alternative framework suggested approaches industrial unemployment by looking at the processes of institutional regulation that affect economic action.

It has conceptualised *industrial unemployment and restructuring as institutionally constructed processes*. It emphasised the role of intermediate formal and informal institutions that, through individual and collective action, affect the process of wage determination within companies. The importance of the wage relation rather than wages alone on processes of employment change lies in its role as a primary dimension in influencing restructuring choices. Analytically, this needs taking into consideration the divergent economic and social interests embodied by different actors (companies, workers, trade unions and also other socio-economic organisations) as well as the values underlying strategies and the wage relation.

But, in this identification of specific institutions, some *complementarity between macro-economic perspectives and the preference models* is desirable, in order to shed light on the complexity and interdependency between structure and agency in the determination of employment change. We need to consider the influence of both demand-side and supply-side factors in the labour market. Fluctuations in the aggregate demand represent important elements in determining an expansion or contraction of the overall level of market demand for labour. The salience of market demand for labour lies in the fact that it is the area where job structures are shaped and the level and nature of demand is determined (Doeringer and Piore, 1971; Labour Studies Group, 1985; Reich et al., 1973). Labour demand is therefore important in affecting company position in the market, hence their pursuit of efficiency and profitability, and also in determining the type of labour requirements. Both dimensions are crucial in the definition of the levels of wages as well in the delineation of the power relations marking capital and labour dynamics which, in turn, are determinant for the wage setting process.

However, the factors indicated above are not directly relevant to decisions on redundancies and restructuring and on the type of process of adjustment to be undertaken. For instance, an expansionary phase in a particular company/industry does not exclude restructuring nor does it imply an expansion of employment. What is important to note is that these factors

themselves are intertwined with specific supply-side conditions in the labour market. Company technical and work dynamics reflect (and affect) the strategies pursued by families, by trade unions and other socio-economic organisations, by the state and so on (Offe and Hinrichs, 1985; Picchio, 1992; Rubery, 1978; Saint-Paul, 1996). These strategies shape labour market participation through the division of labour in the household, processes of occupational socialisation, through the preference given to certain occupations as well state policies influencing, for instance, industrial relations, labour contract systems as well the system of welfare protection.

By highlighting the processes underlying individual and collective action, the perspective advanced in this chapter argues that redundancies are *historically contingent and geographically situated*. They are not the outcome of market forces responding to the principles of rational choice/profit maximisation, efficiency and perfect competition in a system tending towards a state of equilibrium. They are the historical and geographical (spatial) expression of capitalism whose adequate analysis cannot avoid its historicisation and the recognition of its spatial heterogeneity. Also the institutions and the social and economic actors affecting redundancies hold contingency and spatial specificity. As the 'geography of enterprises', conceived as non-identical capitals, is recognised (Dicken and Thrift, 1992), there is also the need to recognise the ways in which the institutional forms, expressed at the company level, are both geographically distinctive and embedded into wider (national and international) institutional contexts as well are their outcomes. Concretely, the process of wage determination as well the interpretation of labour and its associated costs assume spatially specific connotations. Wage determination is the outcome of unique interactive processes involving primarily companies, trade unions and workers and reflecting their strategies; these are continuously reshaped by external factors, by the action of others and by cultural conditions that are contextually embedded and respond therefore to sedimented practices. The interpretation of labour responds to socially and culturally constructed configurations that, at different levels, affect actor knowledge and decisions. Yet, what is relevant is not simply to identify which levels and geographies become relevant in explaining processes of restructuring and redundancies but especially to understand the changing relations and influences between and within scales.

The mainstream literature offers economistic and reductionist accounts of industrial unemployment. The traditional neo-classical theory holds that industrial unemployment is the

consequence of the working of market forces to restore economic efficiency and profitability, both compromised by the institutional regulation of the wage relation. By acknowledging the formal and informal institutions that enter the process of wage determination, the approach I propose claims that redundancies should be considered as the outcome of the combination of multiple, overlapping and conflicting strategies of individuals and collective actors driven by economic and social determinants.

The analysis of processes of industrial unemployment and restructuring following the institutionalist perspective advanced here- but against the insights of other approaches- has constituted the main object of investigation of the comparative study between Teesside and Brindisi. The next chapter outlines the methodology.

Chapter 3 - Research methodology

3.1. Introduction

This chapter discusses the methodology and the methods of analysis that have been employed to carry out the comparative study of Teesside (UK) and Brindisi (I) and to address the aims underlying it. Section two articulates the principles of a methodology able to examine an institutionalist approach to redundancies. Section three indicates how I implemented it. It points out the methodological variables that I have deemed central to an institutionalist study of redundancies and that are often neglected by conventional analyses. The aim is to verify their potential besides that of the variables underlying the positions examined in chapter two. Finally, section four offers an explanation of the methods of analysis used to carry out the research.

3.2. An institutionalist epistemology

The methodology that I deem consistent with the theoretical framework advanced in section 2.6 rests upon four assumptions. First, it assumes that the market, major expression of the economic logic of capitalism, is as an institution itself. This implies that exchanges are organised and founded upon economic and non-economic (e.g. social, ethic, legal etc.) institutions and rules. It follows, consequently, that, besides relations of exchange, the market is also characterised by relations of production and re-allocation of resources. The main implication for an investigation of industrial unemployment is that the analysis cannot focus merely on the moment of the exchange of labour (or its end) and that the wage (price of labour) cannot be the only parameter of investigation. Accordingly, as I maintain that the wage relation represents more than the contract between employers and workers (labour in exchange for corresponding pay) and, specifically, that it embodies the institutions that regulate capital and labour relations (definition of profit, content and coherence of labour provision, etc.), such institutions become the main object of investigation.

Second, the investigation of institutions has the scope of providing an understanding of the ensemble of rules, habits and other social forms that frame the actions and strategies of individuals and groups and influence both the process of wage determination and the wider wage relation. Redundancies and restructuring are not something that happen to people but

they are processes in which people are both affected and participate. By bringing institutions at the centre of the analysis, this methodology allows to disclose the processes and motivations of diverse nature that determine processes of employment and industrial change and explain why they occur in the way they do. The idea of the rational man driven by maximisation behaviour is therefore dismissed as individuals are deemed to act following sedimented ways of thought or action, generating habits.

Third, by assuming habits rather than rational choice at the basis of human action, an institutionalist methodology to industrial unemployment claims the primacy of collective action over individual one. Formal and informal institutions, formed as durable and integrated complexes of shared habits, become the dimensions that mediate both actor actions and outcomes. Preferences are endogenised in individual behaviour and interests are acknowledged as autonomous but not independent. Following this perspective, redundancies are not seen as the result of the action of independent actors (firms and individuals) but rather as the outcome of inter-relations between individual and collective actors. In particular, in this analytical framework, the enterprise is attributed a salient role. It represents the institution at the heart of the capitalist imperative and of the social relations underlying it. But, rather than being analysed as production function, transformer of inputs into outputs, or as rational organisational model pursuing a generic capitalist profit, the firm is investigated as an institution crystallising a complex web of social relationships which determine a specific corporate culture²³ and drive economic decisions. By defining the wage relation which, in turn, is an important hinge for company internal coherence. In addition, those relations affect the decisions taken and actions implemented by companies to pursue their ultimate goal of being profitable.

Finally, by accounting for actor action and the processes that influence it, the institutionalist methodology proposed here acknowledges that industrial unemployment is an open process, determined also by power relations. In other words, it considers the salience of the aims of the economic action (not only of its means)²⁴ as well of the processes underlying it (not simply its

²³ Refer, among others, to Saxenian (1994) and Schoenberger (1997). Schoenberger defines corporate culture as the ensemble of material practices, social relations and ways of thinking. Material practices include, inter alias, the technology and the organisation of production, the division of labour and tasks. Work can be seen as a material and social activity. Through it, skills and meaning of what is done are developed as well understandings and expectations about the social practices involved in the economic activity.

²⁴ It is evident that underlying the institutionalist methodology lies an ethic representation of capitalism. In contrast to the neutrality and efficiency heralded by the neo-classical paradigm, institutionalism points out as the problem of labour is primarily an issue concerning the social costs of labour and economic power.

results). In addition, it claims that the outcome of both these processes is historically contingent and geographically differentiated not only in terms of institutional forms but also in terms of their socio-economic effects. By claiming that labour market phenomena come to be regulated in geographically distinctive ways, this approach maintains that labour market processes are spatially varied both in their causal origin and the manner of their operation.

The epistemology I have indicated raises a central question about the role of method within the social sciences. Following Commons (1934), the primary objective of an institutionalist investigation, which I share here, is to disclose patterns of explanation. They allow the explanation of human behaviour by placing it within its cultural context and by building categories of investigation starting from the identification of similarities-differences and of relations between parts and whole. An institutionalist investigation is holistic in two ways. First, one cannot separate the logic and the empirical nature of reality and, second, human systems are interconnected and, therefore, not logically separable (Bazzoli, 1994). Underlying is a conceptualisation of science which accounts for social phenomena and their evolution as the expression of historically-determined behaviours of individuals, groups and institutions that shape them and are shaped by them.

By contrast, the neo-classical tradition is based on a hypothetical and deductive method of analysis. Deduction rests on hypotheses that limit the explanative variables (exogenous to the analysis) and the variables to be explained (endogenous). Thus, what is explained is the logical consequence of premises set *a-priori*: these are laws that allow connections among abstract categories. By indicating a logic symmetry between explanation and prediction, this method leads to the formation of general laws able to explain trans-historical and trans-cultural realities and science assumes a predictive aim. Individuals are deemed to be driven by the logic of rational choices which becomes the efficient mechanism of co-ordination of economy. In this picture, institutions as well technology and preferences are assumed as given and do not intervene in the representation of the market.

3.3. Implementing the analytical framework

Two aims underlie the empirical work. It first aims to investigate the main causes of redundancies and industrial restructuring in the chemicals and clothing industries of Teesside

and Brindisi. Second, it attempts to identify and study the institutions that affect the wage relationship and shape processes of industrial and employment change in the two sectors of the two areas.

I have chosen not to tackle the questions exclusively through the analysis of aggregate indicators as contemplated by the most credited analyses on industrial unemployment. Table 3.1. shows some of the main methodological variables which each of the theoretical positions I indicated in chapter two would use for the investigation of industrial unemployment. Instead, I have chosen to focus especially on the processes fuelling industrial and employment change as well as on the agents involved in it. Therefore, whilst considering, for instance, profitability trends, sector output growth, employment trends or process innovation, I have privileged an analysis that has allowed me to highlight the complex nature of the processes object of investigation where institutional, economic and spatial aspects intertwine and to reflect on the overlapping interactions among them (Silverman, 1993; Flowerdew and Martin, 1996). I have chosen to focus on corporate strategies, on the strategies of other formal institutions (e.g. trade unions, local authorities, local sectoral organisations, voluntary organisations working with unemployed workers) as well as to consider individual preferences. This approach has allowed to disclose interests, choices and strategies, reflecting not only rational-choice behavioural assumptions but also spatially-specific symbolic and cultural values and practices affecting workplace and wider labour market dynamics.

Companies have been considered the primary sources of processes of employment and industrial change. Much of the analysis has revolved around the chemical and clothing companies of Teesside and Brindisi. This has been consistent with the theoretical and methodological centrality I attributed to companies as agents reflecting the specific interests of capital but also as institutions representing the definition of capital and labour relationships (through the regulation with workers and unions) and the wider social relations they reflect. The diverse strategies undertaken to restore or maintain profitability as well the variety of possible employment adjustments represent the outcome of a unique decision-making process in response to external or to internal pressures of diverse nature. Their choices should be considered as the most adequate solutions given their internal culture that is considered their material (e.g. technical resources) and social (e.g. human resources, organisation of work) endowment as well as the symbolic representations and perception of their role in a particular community, result of spatially and historically specific relations or sedimented practices.

Table 3.1. Theoretical positions and main methodological variables

Theoretical positions	Key methodological variables
Wage-gap hypothesis	Profitability, cost of labour, labour productivity, union density, labour market corporatism, laws regulating employment relations
Keynesian interpretation	Manufacturing investments, interest rates, manufacturing output, GDP growth
Marxism	Profitability, (excess) productive capacity, accumulation rate, labour productivity, investment rate, consumption levels, union density, industrial disputes
Neo-Marxists	Capital ownership, structure of activities within corporations, investment rate, productive capacity, work organisation, labour productivity, industrial relations, industrial policies, job and social characteristics
Schumpeterian theory	GDP growth, sectors output growth, investment rates, patents, product and process innovations, R&D
Preference models: - based on methodological individualism	Shirking model: organisation and practices of work, labour productivity, control systems, trade unions presence
- based on the social nature of preferences	Fairness model: unemployed behaviour
- based on competitive group strategies	Shirking model: company internal disputes, organisation of work, control systems, worker participation, trade unions presence
Old Institutionalism	Fairness model: employers-workers relations (e.g. organisation of work) Participation model: firm governance structure (wage system, capital/labour partnership) Insiders/outside model: hiring costs, cost of training, level of productivity, trade unions presence At company level: profit strategies, system of production, organisation of work, working conditions, trade unions presence, quality circles, workers participation in decisions concerning the firm
Regulation theory	At collective level: bargaining system, labour legislation, training and job creation programmes, education system, structure and dynamics of welfare system System of production and accumulation, system of bargaining, macro-economic policy orientation, consumption patterns, welfare system
Theory of conventions	Work routines, interpersonal relations, customs, traditions, shared expectations, learning processes, transmission of skills, use of equipment and tools

Second, the centrality of the role of companies in shaping employment change has been assessed in connection to the management of redundancies. The analysis has focused on the decision-making process leading to redundancies and on the criteria followed to implement them. In the first case, the investigation on the actors involved in the decision, on the process through which the decision was taken and the climate of such a process, has accounted *inter alia* for the existence and the nature of industrial relations in local companies, for the perception of their responsibility towards the community in which they are located as well for their wider productive strategies. The combination of these elements shapes businesses action as the institutional and cultural systems affect not only the definition of what is a rational economic behaviour but also whether this behaviour is compatible with the wider social environment in which it manifests. By considering the criteria used to select particular section of the workforce to make redundant, I maintain that this is another means through which companies shape employment change. In contrast to what is generally portrayed in economic analyses, corporate restructuring processes do not end up simply enlarging the pool of unemployed people from a purely quantitative perspective. As shown in the case-study chapters, restructuring paths involving job losses offer companies the opportunity to actively intervene in the selection of professional profiles that are more suitable to the requirements of the organisation of production and work that they intend to achieve and pursue after the phase of adjustment.

Finally, the role of companies on processes of industrial and employment change has been considered by looking at the impact of their restructuring choices on the local productive fabric and employment relations. Large scale restructuring processes, involving a plurality of companies, but also the action of a single company may have deep effects on the productive profile of a whole sector. Besides quantitative changes (e.g. downsizing of companies), a sector is likely to suffer from qualitative transformations attaining, for instance, its productive specialisation or the level of technological endowment. Also inter-firms relations may undergo a modification towards a closer integration in the productive cycle or, on the contrary, towards a greater segmentation of activities. By the same token, restructuring strategies may bring the re-definition of the prevalent model of employment relations. This includes primarily firms internal labour markets (e.g. the upgrading of the technological apparatus leads to a modification of the organisation of work) but also the modification of the demand of labour with its effects on the features of the supply side.

Together with companies, trade unions have been considered the other active agents of industrial and employment change. Trade unions have been conceived as institutions rather than as organisations. They are not merely bearers of worker interests in contrast to the ones represented by the business but they have also a wider collective role. Within the capitalist system, they promote the compromise between conflicting interests and the need for industrial development. In this framework, therefore, they become a source of regulation and control of capitalist tendencies. The employment relation is the institution in which conflicts and common interests find a mediation, where the productive role of workers and employers as complementary to each other is recognised, and where conflicts are a source of change. The presence of trade unions at the workplace, their co-ordination as well the climate of industrial relations, reflecting distinctive industrial cultures, represent important variables to influence corporate decisions of change, to affect the quantitative impact of job losses and the categories of workers most affected.

The research has analysed the role of unions in two ways. First, the investigation has considered their responses during a phase of industrial restructuring. This has been deemed to be a crucial factor in influencing corporate options concerning the type of process of adjustment to be undertaken and its impact on the workforce level. At firm level, agreements concerning the modification of the organisation and practices of work through, for instance, the implementation of internal forms of flexibility, and, in general, the search for negotiated and gradual employment adjustment measures widen firms' menu of options for restructuring and avoid the exclusive reduction of employment level. These are also the means to reduce the number of redundancies actually enforced. Unions' influence on industrial and employment change occurs also at a wider level. By affecting labour demand (e.g. through the agreement on changes concerning labour processes), unions choices shape the features of the supply-side of the labour market. Second, unions affect employment dynamics also through their involvement in the decision-making and management of redundancies. This occurs both at the workplace, where the dismissal of certain workers or categories of workers produces a re-configuration of the workforce around different technical and cultural values, and at the level of the wider labour market which sees the creation of pools of unemployed workers characterised by specific features. It is somewhat counter-intuitive that trade unions' specific strategies reflect constraints and opportunities, spatially and culturally specific, that inevitably lead to solutions favouring, for instance, certain workers rather than others or favouring employed workers rather than the unemployed ones.

I have also deemed that industrial and employment change is affected by the action of local institutions (e.g. local authorities) and sectoral organisations (e.g. Chamber of Commerce, employers' associations). By providing infrastructures (from the areas destined to industrial settlements to childcare) but also training, social services or by adopting active industrial policies or job creation initiatives, local authorities play a key role in facilitating and supporting industrial activity. Also the presence and the activism of local sectoral organisations have been deemed to enhance productive activity and to have a positive role when periods of change are underway. As shown in the case study chapters, by developing promotional activities, these organisations have favoured inter-firms co-operation and agreements towards the reduction of external diseconomies and a common reaction to economic change.

The analysis has also considered voluntary organisations engaged in activities for unemployed workers. By providing training and other services between welfare and labour market, they act as intermediaries through which some unemployed acquire new social and professional skills to participate again in the labour market. The focus on these organisations and associations allows us to account primarily for worker strategies to re-enter the labour market. In addition, it allows us to account for household strategies concerning the division of waged and non-waged work which have a deep influence in shaping labour market participation.

Finally, the analysis has considered redundant workers. Through the investigation of their experience of being made redundant, processes of industrial and employment change have been explored as well as the values underlying them. In addition, the focus on their current strategies to re-enter the labour market accounts for the modified production and work requirements.

I have also argued that an institutionalist investigation of processes of redundancies and industrial restructuring must recognise the power of context. In this specific case, this has implied a consideration of two sectors and two areas. The focus on the two sectors has allowed to investigate the two explanatory levels that are considered salient for industrial and geographical phenomena (Sayer and Morgan, 1985). The first consists of the sectoral analysis in which companies operate; this provides an explanation of local sectoral performances whose changing trends impinge upon companies' decisions; the second concerns the

individual company dynamics and this to find out about what happens in themselves. As indicated by Sayer and Morgan (ibid. 149), “what happens ‘on the ground’ also depends on how resources are organised in the factory and on the kinds of responses to the conditions at both levels, both of which can vary considerably”. Company performance cannot therefore be detached from the knowledge of sectoral trends as well from the knowledge of the wider local institutional conditions that affect both the nature of a company’s internal resources and the way in which they are used. Such a knowledge has been acquired through analyses of other subjects. These include workers and redundant workers, trade unionists, public officers and members of voluntary organisations. By bearing different sensitiveness and perceptions of the problems and representing diverse economic and social interests, they have contributed to provide a realistic picture of the complexity of reality. This methodology has also virtually effaced the problems connected with the ‘view from above’ deriving from conducting interviews only with managers (Forthergill and Gudgin, 1985).

3.4. Methods of analysis

3.4.1. Interviews and focus groups

Semi-structured interviews and focus groups have been the main instruments I have used to grasp the qualitative aspects connected to the processes of industrial restructuring in the two industries and their impact upon the employment/unemployment dynamics. Semi-structured interviews are interviews developed through inputs, by leaving the interviewee the widest opportunity to answer. With this method, the risk of going beyond the topic is counterbalanced by the opportunity to collect a deeper and richer set of information. The focus group is instead a group interview in which it is the interaction among individuals to produce a considerable amount of data about the topic discussed. The limited number of participants and the complex internal dynamics are the main limits of this method that may affect their final outcome (Morgan, 1997, 1998).

The fieldwork was carried out from October 1998 to September 1999 and divided into two phases. During the first, from October to February, the Teesside case study was undertaken, while the second phase was dedicated to Brindisi. I conducted 89 interviews in total with four different groups of interviewees (employers-plant/personnel managers, workers, socio-

economic organisations – local institutions and voluntary organisations working with unemployed) (tables 3.2. and 3.3.) for which I used four slightly different checklists.

Table 3.2. Interviews by groups of interviewees

Groups of interviewees	Number of interviews		
	Teesside	Brindisi	Total
Employers-plant or personnel managers	13	14	27
Workers	14	9	23
Local institutions/sectoral organisations	16	14	30
Voluntary organisations working with unemployed workers	6	3	9
Total	49	40	89

As shown in table 3.4., there are three areas of investigation common to all groups. Questions concerning the pattern of employment change in the industry/company have aimed to identify primarily the periods of major employment changes in the industry and at company level, the entity of such changes and the categories of workers most affected. The second common set of issues concerned the analysis of the main determinants of the processes of redundancies and restructuring with the aim of tackling the multifaceted nature of the phenomena under investigation. Specific questions concerned the role of the industry/company's market changes, technology change, the re-organisation of production and especially the relevance of the cost of labour. Other questions sought to investigate the specific relevance of supply-side institutions of the labour market (e.g. the role of legislation, trade unions strategies, etc.), the role of corporate culture as well as of the local industrial culture as causes of employment and industrial restructuring. The third set of common questions focused on the development prospects for the industry/company and employment opportunities following the phase of restructuring. These questions highlighted actors perception on possible future trends, on the opportunities for workers still in the industry to maintain their job, and for redundant workers to re-enter the industry. They also helped to delineate the conditions that interviewees believed to be needed for restructuring processes to generate employment.

Table 3.4. Main themes of investigation during the interviews

COMPANIES	WORKERS	FORMAL ORGANISATIONS	VOLUNTARY ORGANISATIONS
Pattern of employment change in the industry/company Employment trend in the company Number of job losses Phase of redundancies Categories of workers most affected	Pattern of employment change in the industry Employment trend in the sector Features of the industry Phase of redundancies Categories of workers most affected	Pattern of employment change in the industry Employment trend in the sector Features of the industry Phase of redundancies Categories of workers most affected	Pattern of employment change in the industry Employment trend in the sector Categories of workers most affected Perceptions of the problem Problems connected to it
Causes of redundancies <i>Economic</i> Cost of labour, techn.innovation, demand, re-organisation of production or work, etc. <i>Non-economic</i> Laws, organisation strategies, sectoral agreements, etc. <i>Attitudes and behaviours of the workforce</i> Inflexibility, reservation wage, skill mismatch <i>Employers' responsibility</i>	Causes of redundancies <i>Economic</i> Cost of labour, techn.innovation, demand, re-organisation of production or work, etc. <i>Non-economic</i> Laws, organisation strategies, sectoral agreements, etc. <i>Workplace dynamics</i> Inflexibility, segmentation of the internal labour market, compliance <i>Employers' responsibility</i>	Causes of redundancies <i>Economic</i> Cost of labour, techn.innovation, demand, re-organisation of production or work, etc. <i>Non-economic</i> Laws, organisation strategies, sectoral agreements, etc.	Causes of redundancies <i>Economic</i> Cost of labour, techn.innovation, demand, re-organisation of production or work, etc. <i>Non-economic</i> Laws, organisation strategies, sectoral agreements, etc.
Management of redundancies Categories of workers made redundant Criteria adopted Decision-making process	Behaviour in the labour market Job search, conditions to re-enter the market, mobility, reservation wage	Employers' responsibility Development and employment prospects Productive implications for the area Employment prospects in the area	Employers' responsibility Organisation's activity Aims Activities for unemployed Achievements
Development and employment prospects Productive implications for the company Productive implications for the area Employment prospects in the company Employment prospects in the area	Development and employment prospects Productive implications for the area Employment prospects in the area	Development and employment prospects Productive implications for the sector in the area Employment prospects in the area	Development and employment prospects Productive implications for the sector in the area Employment prospects in the area

The interviews with representatives of local voluntary organisations engaged in activities involving unemployed workers contributed to highlight, among other things, the perceptions of local communities of the problem of industrial unemployment and the problems related to it. Questions on the activities carried out by such organisations and the involvement of unemployed people allowed me to track workers reaction to the condition of joblessness.

I also conducted three focus groups involving 15 redundant workers. The aim was to gain their perception of the causes that led to lay-off. Reflections on their company's behaviour were linked to considerations concerning the climate of internal relations, the role of trade unions and other institutions in the choice of the criteria adopted to dismiss certain workers rather than others and the decisions on how to steer the process of crisis. Another area of investigation concerned the current behaviour of the unemployed in the labour market and the set of preferences that explain it.

From a practical perspective, no selection was made among employers, all of whom were interviewed if they had accepted my request, while contact with workers was facilitated by unions. The interviews in the clothing sector proved more difficult than the ones in the chemical industry in both areas. There have been contingent factors in the two localities that help explain the difficulty I encountered. On Teesside, the fieldwork happened to take place in one of the most difficult moments for the local clothing industry. Plants downsizing, in some cases their closure, and job losses were daily occurrences contributing to exacerbate the climate of the local actors involved. In Brindisi, the existence of conditions of work irregularity or even illegality involving a large part of the local companies breeds a climate of suspicion to interviewers.

All the interviews were transcribed and coded. Connections among such codes constituted the basis for a code map which, in turn, facilitated the interpretation of the fieldwork material, the link between its analysis and the theory and the identification of elements of novelty.

3.4.2. Secondary sources

Although this research has adopted an intensive methodology and, therefore, relies heavily upon primary sources, it has however been complemented and strengthened by the use of secondary material. Previous research work and statistical information have both been used to provide the picture of the economy of Teesside and Brindisi as well to delineate the profile of the chemical and clothing industries in the two areas. Quantitative data have been used in particular to update existing employment-unemployment trends and to provide novel insights on the modifications occurred to the labour market and industrial structure of the two areas examined. National and international statistics have helped to chart the main dynamics affecting the chemical and clothing industries of Teesside and Brindisi. For instance, data on the growing penetration of the clothing market from products coming from low-labour costs countries as well on inter-countries wage differentials have been useful to identify two among the most delicate themes for the clothing industries of the two areas. Further background information has been traced through back-copies of newspapers and magazines as well market surveys.

In the case of the chemical sectors, an important source of data has been constituted by the annual reports of the major chemical corporations, obtained directly from the companies. These have been particularly useful to reconstruct the trend of their main financial (e.g. profit trends) and economic indicators (e.g. sales) as well their employment over the years. Such data have been the sources of important information preliminary to the actual interview with chemical managers. According to Schoenberger (1991), such background preparation is essential for making the most of the limited amount of time which executives are often willing to concede to researchers. Among other things, this author suggests also that the knowledge of technical information reassures interviewees about researcher's understanding of the issues and, thereby, encourages more open and detailed answers.

3.4.3. The two sectors

The chemicals and clothing industries have been selected because they display a different use of the factors of production. While the most important phases of the clothing production require a large input of labour, technological characteristics assume a primary relevance in determining performance in the chemicals industry, affected by capital assets and

technological innovation. This distinction serves as a means of examining how the cost of labour affects the restructuring processes. This is an important consideration for the thesis. In addition, such a distinction should influence choices concerning the quantity and the quality of the workforce. Yet, the production process in the two industries – e.g. the integration of the cycle of chemical production as opposed to the fragmentation of the clothing industry- should affect differently the organisation of work and, consequently, the character of industrial relations in terms of workers/unions' strength in influencing the process of wage determination and their capacity to express unitary interests.

The choice of the chemical and clothing industries is also related to their role within the industrial structure of Teesside and Brindisi and within the local industrial culture, both influencing the construction of the wage relation. The chemical industry is a key industry in the economy of both areas in terms of output and employment. Historically central in local policies and parties programmes, the sector has also assumed a specific cultural connotation in Brindisi and Teesside as the source of wealth and employment on stable bases. By contrast, the clothing sector has been reserved a marginal role in both localities. In Brindisi, the industry existed prior to the settlement of the chemicals but has ended up being shadowed by it. On Teesside, the clothing industry emerged as a buffer sector to heavy industries, absorbing the large reserve of female workers. It has always maintained a marginal image even if, with the collapse of base industries and the rise of male unemployment, women's earning has become in many cases the only source of income. However, a substantial difference distinguishes the clothing industries of Brindisi and Teesside. While on Teesside, the sector absorbs a limited number of workers, in Brindisi, its dimension in terms of productive units and employees is much larger; indeed, its share of total manufacturing employment is the same as that of the chemical industry.

3.4.4. The regional case studies

According to the literature on research methodology, the case study method is appropriate “when investigators desire to a) define topics broadly and not narrowly b) cover contextual conditions and not just the phenomenon of study and c) rely on multiple and not singular sources of evidence” (Yin, 1993: xi). My preference for this approach is because the research has sought to analyse employment and industrial change in the context in which they are occurring. This is consistent with the consideration that the context, embodying the interplay

of socio-economic aspects determined by formal and informal rules shared by people over time, influences the dynamics of industrial unemployment.

Two similar localities have been selected as case studies. Teesside, in the North-East of England and Brindisi, in the South-East of Italy, are both industrial areas. Although each industrialised in a diverse period (the end of the nineteenth century on Teesside - the late 1950s in Brindisi) and from completely different initial conditions (the existence of natural resources on Teesside; State-led identification of a growth pole area in Brindisi), their prosperity has been connected to the presence of a few dominant industries (chemicals, steel and iron and shipbuilding on Teesside; chemical and energy in Brindisi). Both then suffered de-industrialisation after the mid-1970s, with particularly dramatic effects on the areas' industrial structures and labour markets. High levels of unemployment and industrial job loss have led, on the one hand, to the redefinition of the previous models of industrial relations, deemed incompatible with any future process of development and, on the other, to the modification of strategies of participation to the labour market.

Teesside and Brindisi however display their own institutional contexts that are important in understanding their industrial dynamics. My conceptual framework assumes an institutional determination of economic choices and economic processes. In particular, I hold that company decisions concerning restructuring and employment adjustments are influenced by laws, business relationships, local and national policies, but also by local cultural rules and symbols. Organisational behaviour is therefore subject to pressures of both the instrumental and symbolic institutional environment (Usui and Colignon, 1996). On Teesside, industrial development was achieved through the pervasive and paternalistic influence of large companies (chemicals and iron-steel) that generated a socialised culture of compliance and co-operation among employers and trade-unions. Brindisi, instead, presents the traits of a latecomer economy. The decline of traditional agrarian society brought about by the process of partial industrialisation led neither to the formation of an industrial working class nor a complete process of industrialisation. It follows that self-employment is pervasive as well as is the presence of informal economic activities. In other words, the micro-regulation of employment relations and practices, hinging upon rules of reciprocity, co-exists with the formal regulation deriving from the application of national laws.

3.5. Conclusions

This chapter has analysed the methodological fundamentals of an institutionalist perspective to industrial unemployment and restructuring and has indicated the steps I have undertaken for their concrete implementation. Consistent with this approach and in order to carry out the comparative analysis between Teesside and Brindisi, the research has adopted a qualitative research design that has allowed to focus on the mechanisms and processes leading to employment and industrial change in the chemical and clothing industries of the two areas. The results of the investigation are presented in the following three chapters. The next two present the regional case studies, Teesside and Brindisi, while chapter six is a comparative chapter.

Chapter 4 - Corporate restructuring and redundancies on Teesside

4.1. Introduction

This chapter explores the causes of redundancies and industrial restructuring in the chemicals and clothing industries of Teesside. The last decade has been a period of major industrial change for both sectors. Processes of restructuring have involved a great number of local companies and redundancies have accompanied them. The adjustment paths however differ substantially between the two industries. Redundancies in the chemicals sector have been mainly due to the process of business re-organisation and re-configuration of the employment relationship undertaken by ICI, the company that has drastically dominated the area. Changing sectoral circumstances forced ICI to define a new business strategy and, at the same time, it embarked upon a cost cutting policy that heavily impacted on its traditional model of employment relationships. Job losses in the clothing industry are for very different reasons. To fulfil retailer pressure on prices, local producers have chosen to move their production (or part of it) to low-labour costs countries. On Teesside this has led to downsizing and job loss.

Although the evidence presented suggests that both industries have become more labour-cost sensitive, it still challenges the mainstream interpretation of redundancies and industrial restructuring which blames the cost of labour for profitability crises (Bruno and Sachs, 1985; Layard et al., 1991, 1994; CEPR, 1995; OECD, 1994). I argue that an explanation of redundancies centred on the cost of labour fails to capture important other dimensions. With regard to the chemicals sector, I show that ICI's re-organisation of the business activity was solicited by the end of the period of demand-led growth that had led the company to achieve market dominance and, with it, of a particular way of making profit. In clothing, the restructuring process based on re-location relates more to the type of productive relations in which local companies are locked in rather than to the cost of labour. In addition, I reveal that the local industrial culture has played a salient role in constraining the options of change.

The chapter is structured as follows. Part 1 examines economic and labour market changes on Teesside, showing how this area experienced a remarkable transformation from a dynamic and growing industrial location, ensuring conditions of full male employment, to one with the highest rate of unemployment in the country. It also reveals the traits of the local industrial culture. The indication of the socio-economic development of the area is analytically relevant

for the explanation of the specific impact of economic change on Teesside and the unique reaction of local companies through restructuring and redundancies.

Part 2 and Part 3 present the two sector studies. Part 2 is centred upon the chemicals industry. It is argued that redundancies have to be seen mainly in connection to the industrial restructuring of the former major chemical company of the area. The modification of global sectoral conditions has forced ICI to revise its market choices, to modify its business orientation and to start a careful cost-cutting policy. Although marginal to the total costs of production, the costs to maintain the previous model of employment relations have been deemed unsustainable and for this reason radically modified. I also show that this former major player in the area is having a meaningful role in constructing the social profile of the unemployed people on Teesside and in affecting the pattern of change of the sectoral relations of production and employment relations. Part 3 concerns the clothing industry. Redundancies in the sector are being determined by the process of adjustment promoted by the area's largest companies consisting of the re-location of their production to low labour cost countries and aiming precisely to take into advantage of differences in wage differentials and labour standards. Nonetheless, I argue that the nature of productive relations in which companies are locked, the local industrial culture and institutional framework have heavily constrained their options of adjustment.

Part 1 – From industrial ‘outpost’ to unemployment ‘blackspot’²⁵: economic and labour market changes on Teesside

4.2. Economy, labour market and local industrial culture in the period of growth – from the beginning of the century to the 1950s

Recent economic literature points out that on Teesside²⁶ (figures 4.1. and 4.2.) the highest proportion of employees work in service industries and that the economy of the area is becoming increasingly diversified (Tees Valley Joint Strategy Unit, (TVJSU), 1999 also for sub-regional data). As is well-known, until two decades ago, the economy of Teesside was dominated by heavy industries. Two major expansionary phases contributed to the process of industrialisation of this rural area.

²⁵ These terms have been taken from Austrin and Beynon (1979 quoted in Hudson, 1989) and by Foord et al. (1985)

²⁶ Teesside refers to the boroughs of Stockton on Tees, Middlesbrough and Redcar&Cleveland (former Langhbaugh). Hartlepool is a separate entity in labour market terms.



Figure 4.1: Teesside in the UK.

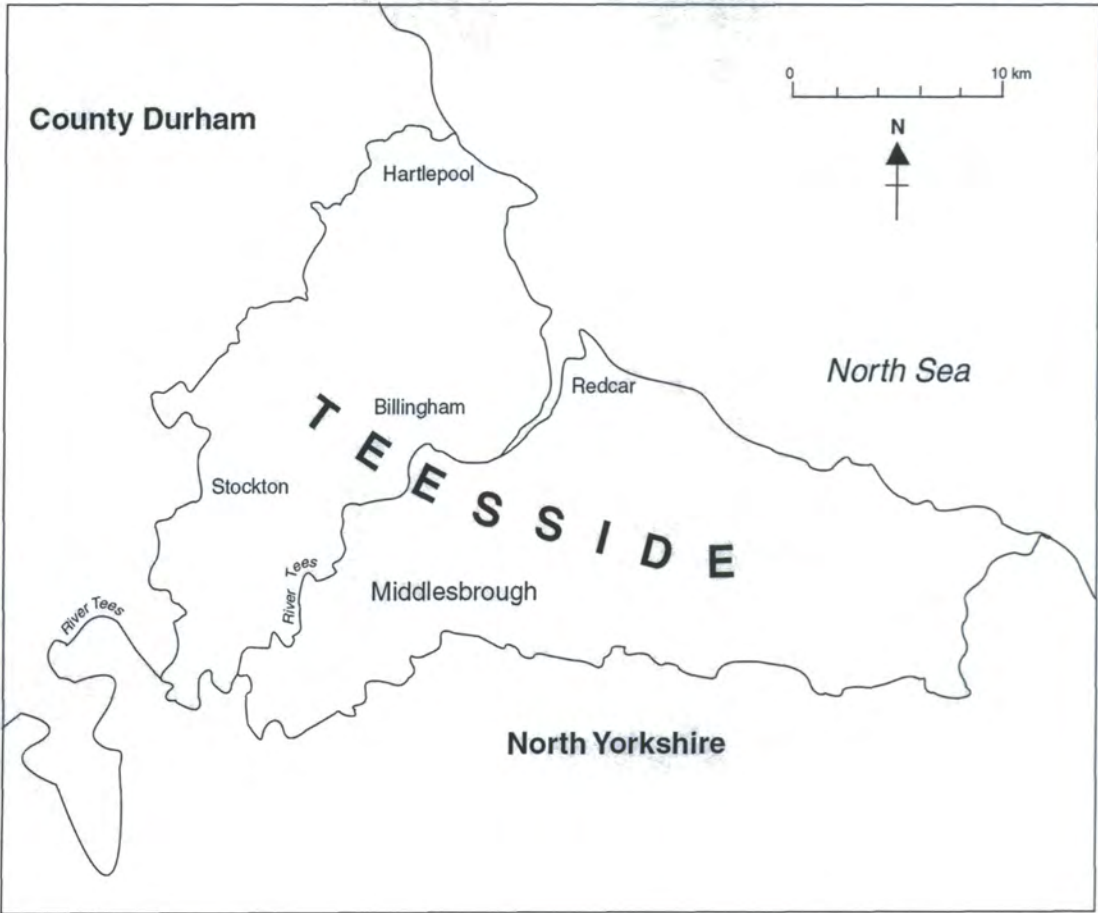


Figure 4.2: Teesside

The existence of coal and iron ore led to the growth and development of the first industries during the 19th century around iron and steel as well shipbuilding. It is only in a second phase, at the beginning of the last century, that the area witnessed the growth of the chemical industry (Beynon et al., 1994). Teesside became a place of national and international significance for its role in British capitalist expansion, a centre of engineering, steel and chemicals.

As the process of industrialisation occurred in an area where industrial activity was previously absent, the major companies located there came to define its social and labour market characteristics and to mould the cultural aspects that marked the specificity of Teesside's industrial history. First, the increasing centrality of the industry in the area led concerns and interests of private capital to sweep away the ones carried by the land owners and to become dominant within the area's governing structures. Local government adapted to the demands of capital, contributing to the policy of consensus that came to characterise Teesside's political life. Second, industry specialisation in the basic sectors sharply defined the gender division of labour and the occupational structure of the local labour market. Men were completely absorbed by the industries in manual and semi-skilled jobs. The influx of migrant workers from elsewhere in the North and Ireland satisfied industry's further needs, while women were confined to non waged work in the home (Beynon et al., 1986). It is only during the post-war period that political and socio-economic forces, committed to avoid the transformation of the local labour market, favoured the settlement of the first female-employing activities in the area as they were considered complementary and non-competitive with the existing heavy industries.

The model of industrialisation shaped also the future of class relations. Indeed, "an embryonic" working class began to establish itself only over the subsequent years when private capital interests had already been consolidated and resulted prevalent with respect to those of labour (Hudson, 1994:196). The existence of a few big firms gave rise to a culture of dependency: companies provided wages, housing and other consumption artefacts. Big companies deliberately pursued a strategy of compliance and co-operation with the workers as the only possible form of industrial relations (ibid.). This social construction revealed all its importance for the management of workplace dynamics, for the reproduction of labour provision as well for the management of redundancies when economic downturns compelled restructuring processes. The conditions of compliance set by local companies for the

reproduction of labour satisfied a twofold objective: they were functional to the realisation of surplus and they became the central mechanism to dominate local society. Paternalistic relationships inside and outside the workplace constituted the means through which working class needs were channelled as well the reproduction of labour power. Consequently, the competition between capital and labour assumed the traits of a tacit pact aiming to reduce the level and restrain the fields of confrontation and aimed to achieve the harmonisation of mutual interests. The company need for a stable workforce led to good work conditions and a wider commitment to the community. Similarly, trade unions ensured worker co-operation and collaboration within the workplace and accepted “the legitimacy of the market as an economic steering mechanism” (Hudson, 1989:9). On Teesside, therefore, a class consciousness against capitalist interests did not emerge as it did in other similar industrial areas such as Wales.

4.3. Labour market trends on Teesside from 1960s to 1980s

Only after the end of the war economy did it become clear that for heavy manufacturing a secular decline was underway and that for Teesside such specialisation would penalise it (Hudson, 1994). By the mid-1960s, a political consensus emerged that the industrial apparatus needed modernising. Investment on Teesside concentrated heavily in the chemicals sectors with considerable fixed capital investment²⁷, and in the steel industry which was nationalised. The chosen policy programme favoured neither employment creation in local industries nor the diversification of the local industrial fabric whose job creation was not sufficient to compensate the decline of Teesside’s traditional industrial activities.

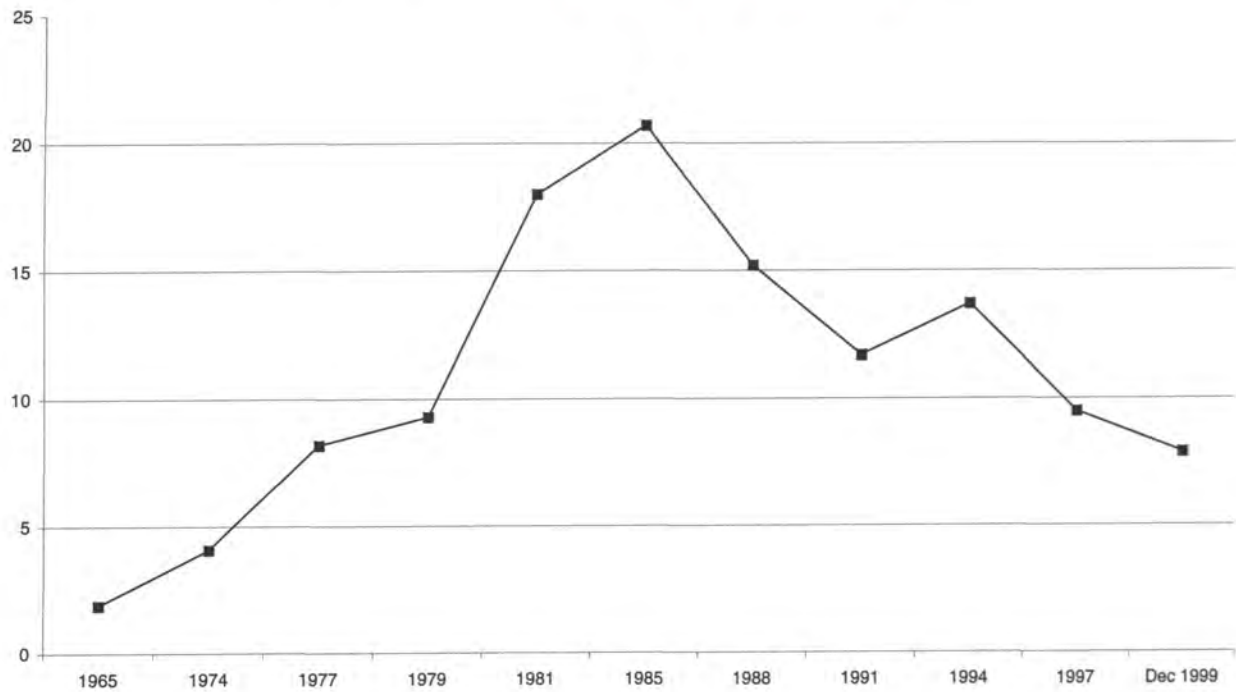
The local labour market started to suffer employment decline and a rise in unemployment. These trends reflected a local economy facing not only the effects of major de-industrialisation²⁸ but also the effects of a delayed industrial policy of restructuring (Martin

²⁷ As indicated by Foord et al. (1985:10), “British and foreign multinationals took advantage of available subsidies either to invest in new capacity or replace existing, but outdated, technology. For example, ICI replaced its thirty-year old ammonia plants”.

²⁸ See Martin and Rowthorn (1986) for an outline of three competitive explanations of the process of de-industrialisation in the UK. According to the authors, the decline in manufacturing employment could be located within a more general theory of economic development and structural change which sees the expansion of the manufacturing sector during the first phases of economic development and its consequent fall when economies consolidate (the maturity thesis). A second thesis concerns foreign trade; in particular, employment decline in manufacturing is to be connected to the change in a country’s/region’s economic role within the international division of labour (the trade specialisation thesis). Finally, the failure thesis sees manufacturing employment

and Rowthorn, 1986; Martin, 1989; Massey and Allen, 1988; Pollard, 1992). There was a sharp decline in manufacturing employment (over the period 1965-1978, for instance, employment in the chemicals, metals and engineering dropped by 22%) which was not balanced by the increase in employment – mainly reserved to women- in the service sector. Unemployment (figure 4.3.) started to increase in the first half of the 1970s. In 1977 it was the double that in 1974 (8.2% and 4.1% respectively) and, in the period 1979-81, it recorded the most severe increase when, in just two years, it doubled again from 9.3% to 18%. In absolute terms this meant that the number of unemployed people climbed from less than 21,000 to more than 40,000.

Figure 4.3. Unemployment rate in Teesside: the historical trend



Source: Nomis

As indicated by Foord et al. (1985:36), “few industries (indeed a few employers) have accounted for the bulk of Teesside’s redundancies”. Long term unemployment became one of the principal characteristics of the local labour market (table 4.1.). By 1986 the long-term unemployed represented over a half of all unemployed people on Teesside with peaks of 55% in Stockton. As a consequence, Teesside experienced the creation of surplus of manpower

decline as the failure of manufacturing industry to compete at the international scale or to produce an adequate level of output.

both male and female, part of which ended up making big the rank of those who preferred to leave the region towards areas of growing labour demand.

Table 4.1. Long-term unemployment on Teesside during the second half of the 1980s

	Male	Female	Total
Jul 1985	54.9	37.4	50.3
Jul 1986	56.7	38.8	51.9
Jul 1987	53.8	37.9	49.8
Jul 1988	49.1	33.9	45.2
Jul 1989	45.5	32.9	42.3

Source: Nomis

At the same time, however, the area started to become attractive for a new round of investment²⁹. With the end of regional financial incentives³⁰ and an increasing commitment towards attracting foreign investment by the Conservative Government, local authorities were encouraged to promote economic programmes favouring inward investment as the major source of economic and employment opportunities. Trade unions too, after the failure to safeguard the major manufacturing plants, spread the culture of worker adaptability and flexibility to enhance the area's locational attractiveness. The north-east became the region for capital intensive plants³¹ and for branch plants of global corporations. However, expectations linked to the new economic activities were frustrated as they were not able to absorb the quantity of people previously laid-off. Corporate relations and employment practices progressively responded to the principles of flexibilisation of work. With new management philosophies, workplaces witnessed a shift from standard to 'non-standard' contracts (part-time, temporary contracts, subcontracting, etc.) and an increase in functional flexibility through skill polyvalence and job rotation. As a consequence, the external labour market

²⁹ As indicated by Armstrong and Taylor (1993), according to a neo-classical view, three mechanisms are supposed to contribute to adjust labour market temporary imbalances: the fall of wages in an area of high unemployment and their rise in areas of low unemployment; the migration of the workers from low wage to high wage areas; the move of firms from high wage to low wage areas.

³⁰ Two types of measures had been implemented to encourage industrial settlements in the less favoured regions: RDGs (Regional Development Grants) which were automatic grants and RSA (Regional Selective Assistance) which instead were decided upon a discretionary basis.

³¹ Paradoxically, the most important companies of the area continued to benefit from regional grants to carry out their processes of restructuring and to regain international competitiveness while, contemporarily, axing a great number of jobs; for example, in 1981-1982, ICI received 65.4% of all the RDG payments in Cleveland county (Foord et al., 1985).

started to be characterised by soaring causalisation and insecurity, leading to a growing percentage of people involved in informal and black economy (Hudson, 1988)³².

4.4. Current labour market trends

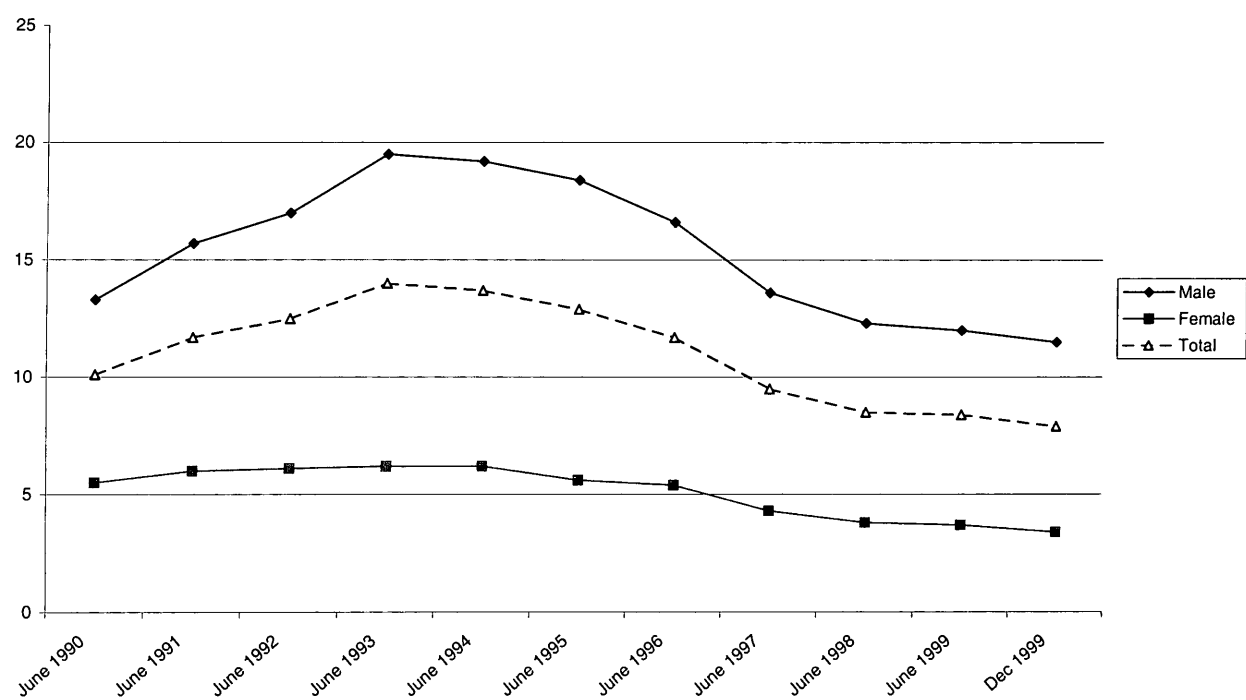
The process of industrial restructuring has continued on Teesside during the 1990s and the local labour market has consolidated the traits of the previous decade. First, plant rationalisations continued to maintain a high unemployment. Figure 4.4 shows the unemployment trend which, until 1996, is well above 10% of the workforce, with a peak of 14% in 1993. It is only in the second half of the 1990s that, due to the combination of a general economic recovery and implementation of the New Deal schemes³³, the rate tends to decrease by reaching the current level (7.9%)³⁴. Male unemployment rate peaked in 1993 (19.5%) while, although decreasing, it still remains above 11%. The number of people seeking a job on Teesside is the highest in Great Britain (figure 4.5).

³² A detailed study on the transformations of the UK labour market is provided by Gallie et al. (1998).

³³ The New Deal represents Labour's answer to unemployment. It is a programme comprising four options of work (subsidised jobs, full-time education and training, and voluntary sector work or place on an environmental task force) that unemployed people are obliged to take to avoid reduction in their benefits (Peck, 1998).

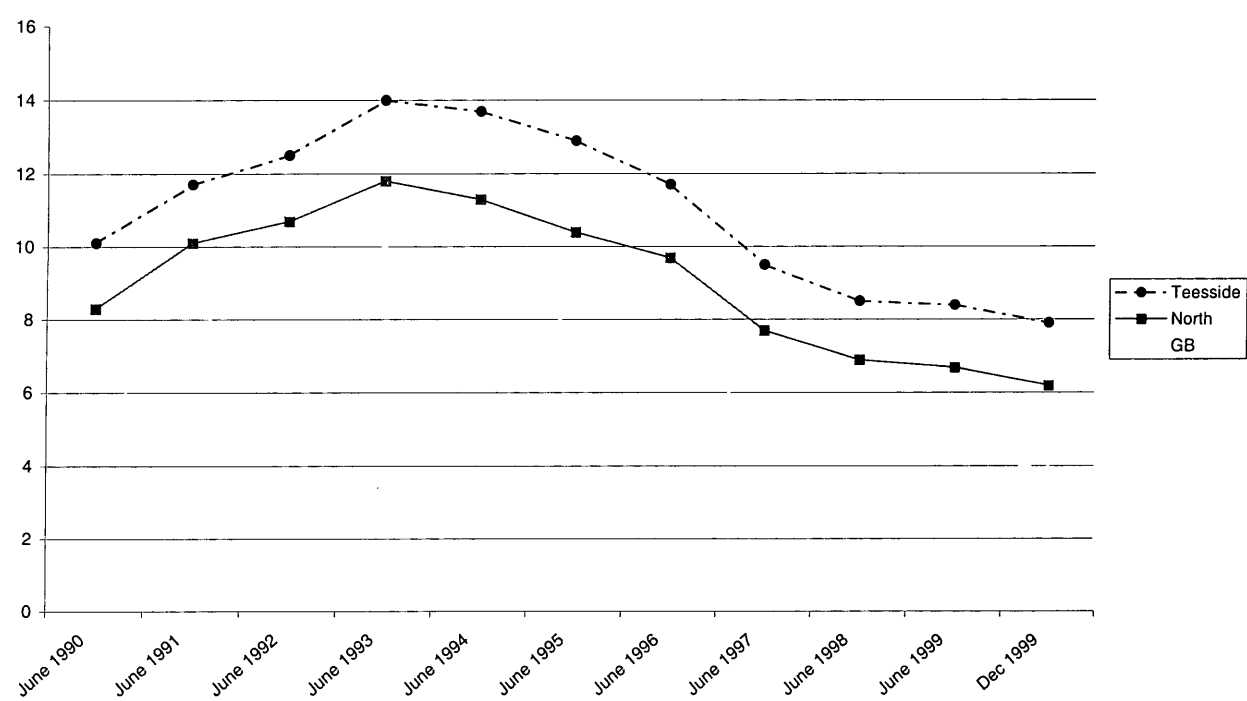
³⁴ Some stances have pointed out the fact that in general the rate could be declining because of two other reasons. First, people on training schemes are not counted among the unemployed people; second, many old workers may be unwilling to enter one of the schemes provided by local Training and Enterprise Councils (TECs) and decide not to sign for unemployment benefits (Peck, 1998; Webster, 1999).

Figure 4.4. Unemployment rates in Teesside during the 1990s



Source: Nomis

Figure 4.5. Unemployment rates during the 1990s: a geographical comparison

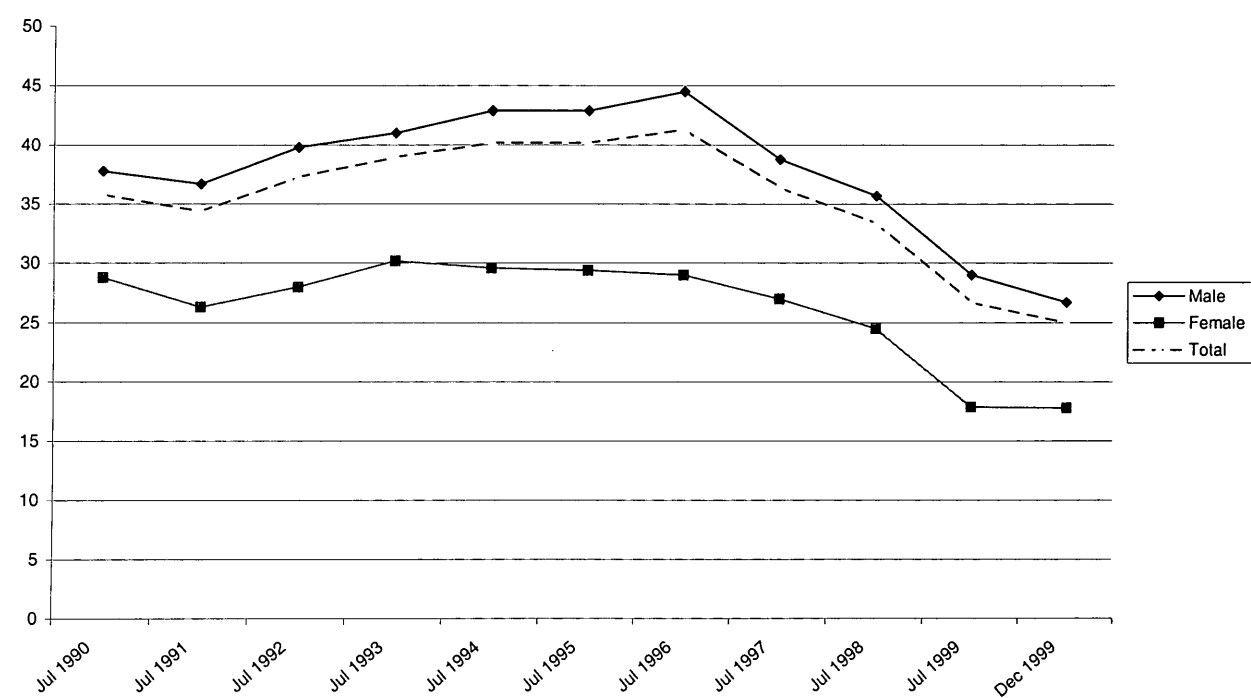


Source: Nomis

The rate of people who have been out of work for 12 months or more is now 25%, but it was above 35% at the beginning of the decade and peaked in 1996 at 41.3% (figure 4.6). Again,

long-term unemployment affects men although in the last few years the trend has declined substantially.

Figure 4.6. Long-term unemployment in Teesside during the 1990s



Source: Nomis

Second, overall employment is declining in the area (by -5.4% during the period 1991-1996) due to the further decline in the manufacturing sector and construction, while local economy is increasingly based on services. The major negative change is recorded for Middlesbrough (-10.3%), the decline is more contained in Stockton (-4.9%) while Redcar and Cleveland maintains practically unaltered its employment levels (0.2%) (table 4.2). Employment fell in the manufacturing sector and construction especially in Stockton and Redcar and Cleveland while it increased slightly in Middlesbrough³⁵. Almost 70% of employment on Teesside is in the service sector while manufacturing absorbs 23.5% (table 4.3.). Service industries dominate employment opportunities for both men and women, but through non-standard contracts (TVJSU, 1995).

³⁵ The negative performance of the service sector and of total employment are explained by considering the re-organisation of the local governments' offices. In practice, there have been no huge job losses as figures would suggest; employees in the public sector have simply changed their employer, from the Cleveland County Council to the single boroughs.

Table 4.2. Employment change by sector and borough, 1991-1996

	Middlesbrough	Redcar & Cleveland	Stockton on Tees	Teesside
Agriculture, fishing energy and water	170	-25	390	535
Manufacturing	570	-1840	-6090	-7360
Construction	-30	-50	-1560	-1640
Services	-6490	1990	3760	-740
Total	-5790 (-10.3%)	70 (0.2%)	-3500 (-4.9%)	-9220 (-5.4%)

Source: TVJSU

Table 4.3. Employees in employment by sector and borough, 1996

	Middlesbrough	Redcar & Cleveland	Stockton on Tees	Total Teesside
Agriculture, fishing energy and water	1.3%	2.6%	1.8%	1.9%
Manufacturing	10.5%	33.6%	26.5%	23.5%
Construction	5.6%	5.5%	6.0%	5.7%
Services	82.6%	58.3%	65.7%	68.9%
Total	100.0%	100.0%	100.0%	100.0%

Source: TVJSU

Table 4.4. shows that the male full-time employment has decreased substantially in all the boroughs of Teesside, in favour of part-time occupations. Female full time employment instead has increased possibly due to employment opportunities in the public sector, in light manufacturing activities, and their association with lower costs of labour.

Table 4.4. Employment change by borough and type of occupation, 1991-1996

	Male f-t	Male p-t	Female f-t	Female p-t
Middlesbrough	-9.50%	21.40%	-15.20%	-11%
Redcar & Cleveland	-5.40%	10.70%	17.40%	-0.70%
Stockton	-16%	54.90%	11.90%	0.60%

Source: TVJSU

During recent years, the work culture of the area has lost its original specificity to become increasingly attuned to the transformation of employment relations at national level. Flexibility in³⁶ and out³⁷ of the workplace has become the main principle governing employment relationships on Teesside where, due to the limited job opportunities, workers are expected to adapt to market demands. According to the projections by the TVJSU (1999), the trends in employment highlighted above will characterise the local labour market until 2006. Accordingly, a net increase of jobs is likely to be recorded in the service sector (approximately 18,000), with a slight rise in employment in construction, while employment in manufacturing is expected to fall (-3,500 jobs). Part-time employment will characterise the new job creation (80% of new jobs will be on the basis of part-time or fixed contracts) while the number of people with two or more jobs is also likely to increase (+2000). Yet, the changing structure of the local economy and the persistence of deep pools of unemployed people seem to have delineated also other categories of workers. Indeed, during the 1990s besides people with two or more jobs and those in casual employment, the local labour market has progressively witnessed the increase in people working on fixed-term contracts (jobs are created for the duration of a specific project) and in the black economy, although no official statistics are available for the area (ibid.).

³⁶Essentially the ability to allocate labour to a wide range of tasks previously constrained by skill demarcations (functional flexibility).

³⁷ The reference is to external or organisational flexibility whereby labour is utilised according to changing production needs.

4.5. Conclusions

In summary, the end of full male employment on Teesside has resulted from the interaction of market and non-market forces, and a major role has to be attributed to Teesside's specific industrial culture. The institutional configuration of the area was centred upon a few big companies. A culture of consensus characterised capital and labour relations whereby worker wage benefits were inextricably linked to company profitability gains. In addition, companies committed to the community through the production of profits in and through Teesside. Yet, the area's governing structures were attuned to the demand of capital. However, such a social pact could hardly be honoured when the convergence of economic events and policy interventions unfavourably affected local industrial performance. From the end of the 1970s, the local labour market saw a growing number of workers expelled from productive processes and, for those still at work, a re-configuration of employment practices. At the same time, the shift from standard forms of employment to non-standard contracts has affected the local culture of work which is now based, as at wider level, upon the principle of flexibility.

Part 2 –Explaining industrial unemployment in the chemicals sector

4.6. Introduction

The mid-1980s marked the onset of the latest phase of profound restructuring for the chemicals industry on Teesside which is still on-going. As previous comprehensive research work is dated around the mid-1980s (Hudson, 1983; Foord et al., 1985; Chapman, 1986), the information presented here, covering the 1990s, is quite original. Global changes in the industry had started to undermine ICI, the main company of the area and a major international player already by the end of the 1970s. Unable to maintain technological leadership in a market where the entry of new players soon led to saturation and an industry-wise decrease in profitability, ICI started a major process of industrial restructuring. This consisted of re-positioning its business and, at the same time, embarked upon a cost-cutting policy which impacted decisively on the cost of labour. The exit from the most cyclically vulnerable segments of the market, and a radical re-organisation of employment relations have become the driving imperatives of ICI during the 1990s.

The reading of the process of employment change in the chemical industry of Teesside presented below contrasts with the dominant academic view (Bruno and Sachs, 1985; CEPR, 1995; OECD, 1994; Layard et al., 1994) that attacks wages and labour rigidity. Whilst not denying that ICI was characterised by an 'expensive' model of employment relations that it reproduced over the years, I show that its re-organisation of the business and re-definition of employment relations must be considered in the light of the modified global sectoral environment of the company. Yet, in contrast with orthodox claims, the corporate restructuring path has been centred upon the downward adjustment of the employment relation.

Section 4.7. reviews the historical development of the chemical industry on Teesside, by providing also an account of the sectoral industrial culture. Section 4.8. analyses the causes of current redundancies in the sector. Section 4.9. focuses on redundant people. It provides the elements which help to argue that, contrary to what is generally believed, the profile of unemployed people responds to subjective preferences rather than to neutral, legal, procedures. Redundancies have affected those individuals who carry with them specific social values that do not correspond any more to the values represented by their organisation and, for this, they are seen as obstacles to change. Finally, section 4.10. draws some conclusions.

4.7. The historical development of the chemical industry on Teesside

4.7.1. The development years: from the second post war period to the early 1970s

The location of the chemicals industry on Teesside dates to the nineteenth century³⁸ but until the first World War the sector played a relatively small role in the area compared to the iron and steel industries, engineering and shipbuilding. The need to replace supplies (nitrogen) from South America during the war boosted the development of a synthetic nitrate plant³⁹ at Billingham where, soon afterwards, a large deposit of anhydrite⁴⁰ was discovered. In the meantime, the area's locational advantages (deep sea port water, a close access to the North Sea, cheap raw materials, etc.) started to be fully exploited by the first industrial settlements

³⁸ The first modern chemical plant on Teesside was the Eaglescliffe Chemical Company at Urray Nook producing fertilisers.

³⁹ The plant applied the method developed by two Germans, Haber and Bosch.

⁴⁰ A basic element for the production of sulphuric acid.

(North, 1975; Phillips, 1999). By the end of the Second World War, Billingham became the largest chemical site in the world (Phillips, 1999; Northern Region Strategy Team, 1976). In 1926, Imperial Chemical Industries (ICI) was founded from a merger of two firms with the objective to satisfy many of the chemical requirements of the British empire. The production of plastics started in the 1930s, while the production of petrochemicals, based on oil processing, substituted the use of coal around the end of the 1950s. This coincided with an international expansionary trend for chemical and plastic products, lasted until the early 1970s, which, as pointed out by Hudson (1983), was determined by two related factors, namely the expansion of existing markets and the expansion of chemical products in markets previously belonging to traditional materials such as glass, paper, wood, etc. In addition, contrary to what happened for other manufacturing outputs, prices of chemicals fell in this period. From 1963 to 1971, total sales for the most important Western chemical producers increased by 8.6%, the value added by 8.7 and investments by 11.5%. In the same period, employment grew by 3.5% and productivity by 5.1% (Northern Region Strategy Team, 1976).

In the period under examination, chemical production on Teesside is identified with its major firm, ICI, though five other large companies were also operating in the area⁴¹. The company developed its production in three sites: Billingham, which produced heavy inorganic chemicals⁴², Wilton whose plant specialised in organic chemicals⁴³ and polymers and North Tees, with the settlement in Seal Sands, which refined raw oil from the North Sea. It was ICI's technological breakthroughs that brought a consistent expansion of the chemical production in the area, favouring increasing economies of scale and determining the conditions for the company's achievement of market dominance. The first of them involved Billingham and consisted of ICI's replacement of coal with natural gas as production process source. The main implication of the process of innovation which led to the replacement of the coke-based process with the steam-reforming process was the achievement of a technological edge on international markets, allowing an increasing production at lower costs⁴⁴. As indicated by Hudson, "the reduction from 11.6 to 0.3 man-hours in the quantity of socially necessary labour time required to produce one ton of ammonia is the most vivid indicator of the combination of increased scale of production and new technology" (Hudson, 1983:115).

⁴¹ They were British Nuclear Fields, Glaxo, Albright and Wilson, British Titan, Procter and Gamble. In 1974, together with ICI, they accounted for 37,000 employees (Northern Region Strategy Team, 1976).

⁴² The main products are ammonia, sulphuric acid and fertilisers.

⁴³ The typical products of heavy organic chemicals are ethylene, benzene and propylene.

⁴⁴ Essentially because naphtha was a cheaper feedstock than coal.

Furthermore, in 1966, the world's first commercial low-pressure methanol plant began its production in the site. Wilton too witnessed great technological advancements. The first cracker in 1951 had a nominal annual capacity of 30,000 tons; at the end of the 1950s, the annual capacity of the third cracker was 70,000 tons and a decade after the fifth cracker produced 450,000 tons per annum (North, 1975).

The 1960s were therefore characterised by very high levels of industrial investment in the chemicals sector symbolised also by the development of a new site along the north bank of the Tees. Seal Sands represented a privileged location for chemical companies seeking to expand their productive capacity. Undoubtedly, the decade represents a period of market-led growth in which Keynesian policies to support mass consumption coupled with consistent investment and technical advancements in the chemical sector to consolidate an upswing of the business cycle that lasted until the mid-1970s. ICI was at the time “the most modern petrochemical complex in the UK with few equals anywhere in the world” (Telfer, chairman of ICI Petrochemicals Division, quoted in Beynon et al., 1994:86) and “Wilton’s pipelines ran in trenches rather than on pipe bridges, and its main roads were dual carriageway” (Phillips, 1999:6). The expansion of the firm maintained a steady pace until the mid-1970s but the economic conditions that had ensured full employment in the area were about to change. The circumstances for a period of a reduction of labour inputs became apparent at the end of the 1970s and, for the first time, Teesside would experience redundancies.

The intense growth of the sector on Teesside was initially favoured by the combination of local, mainly physical, advantages and by a positive international conjuncture, characterised by soaring demand for chemicals manufacture. These conditions certainly contributed to Teesside becoming one among the most important sites for chemicals production and to ICI assuming a dominant role in the international chemicals production.

4.7.2. Industrial culture in the sector

An explanation of the success of the chemicals industry on Teesside based on market conditions would offer only a partial account of the relevant processes. The extensive growth was facilitated by a well-defined industrial culture that was forged by the area’s major company.

Industrial relations

The development of Teesside around a few but strong companies led them not merely to influence the area's economic development but to mark its industrial history. ICI, together with BSC (British Steel Corporation), monopolised the local labour market and found its strength and stability in the framework of its employment relationships.

“... in Teesside, there is a long history of dependency on heavy industries. People have always relied upon their employers, which were supposed to provide a job for life, security, and continuous training”⁴⁵.

A policy of formal co-participation of the workers in company's decisions concerning labour was carefully planned in the workplace through the establishment of Works Councils, Divisions Councils and a Central Council. This aimed at avoiding the diffusion of trade unionism rather than enforcing collaborative decision-making. Indeed, the efforts tended to produce a tacit alliance between the company and its workers and to socialise the belief that capital and labour interests could have been harmonised. As I was told by an ex-worker of ICI:

“Workers were institutionalised. There was a sense of family in the company. A person who got a job there [in ICI] was proud of this achievement”.

In practice, however, highly sophisticated work measurements aimed at tightening management control over work were introduced as well means to reduce and control possible conflicts in the workplace. The introduction of Manpower Utilisation and Payment Structures in 1965, substituted in 1969 by the Weekly Staff Agreement, favoured increasing productivity. As pointed out by Beynon et al. (1986), ICI's extensive control on its workforce was possible because of the combination of new management techniques and the limited experience of plant trade unions. Other devices to maintain a firm control on the workforce included selection recruitment, often based on passing jobs from generation to generation of the same family. There was also a strict hierarchy among workers in the workplace. Seniority and experience ordered work relations: skilled workers dominated over medium manual workers who, organised in teams, worked in shift patterns. Wage determination was based on the system of the sliding scales which allowed flexible cost arrangements at time of reduced

⁴⁵ Interview with a senior manager of an important local company.

demand and strengthened the view that company's fortunes coincided with those of its workers (Beynon et al., 1994).

The specificity of corporate relations in the industry consisted therefore of two dimensions. First, in line with the theoretical argument developed by some preference models, ICI adopted a model of industrial relations, hinging upon high wages and good employment conditions, possible because of the firm's leadership and buoyancy in the market, in order to harmonise capital and labour interests (Akerlof's argument) and to reduce internal conflicts (Bowles' argument). The second dimension relates to the extension of company influence beyond the workplace into the local community: "the company brought people together, at the company's expenses, on the company's beer, and in the company's comfortable surroundings" (ibid.47) or "ICI was paying for the management's children to go to school, to university" (a local economic officer in interview).

The organisation of work

At the period of peak expansion during the mid-1960s, ICI employed around 30,000 workers who were engaged into a wide portfolio of business activities⁴⁶. The three ICI sites created a huge single complex of interconnected inputs and outputs as shown in figure 4.7. constituting the perfect example of a vertically integrated company. ICI developed also a wide range of services which, functional to the productive process itself, were retained in-house. Besides providing basic services in-house such as maintenance, transport, catering, cleaning, etc., the company provided engineering support and also training for new hired personnel. As emerged in an interview with a senior manager of the company:

"The company was called pathfinder. It pioneered many different activities. When it was developing new processes, quite often there wasn't the service organisation that would satisfy that, so what we had in the past was major workshops, we use to make our own equipment, we had our own design. We created the services".

The organisation of work associated with ICI's gigantic organisation of production hinged upon Tayloristic principles. These principles entailed the simplification and fragmentation of work processes allowing the reduction in worker margins of discretion over execution and conception.

⁴⁶ Raw materials included, among others, crude oil, natural gas, naphtha, butane, propane; among the intermediate products: ethylene, propylene, ammonia, methanol.

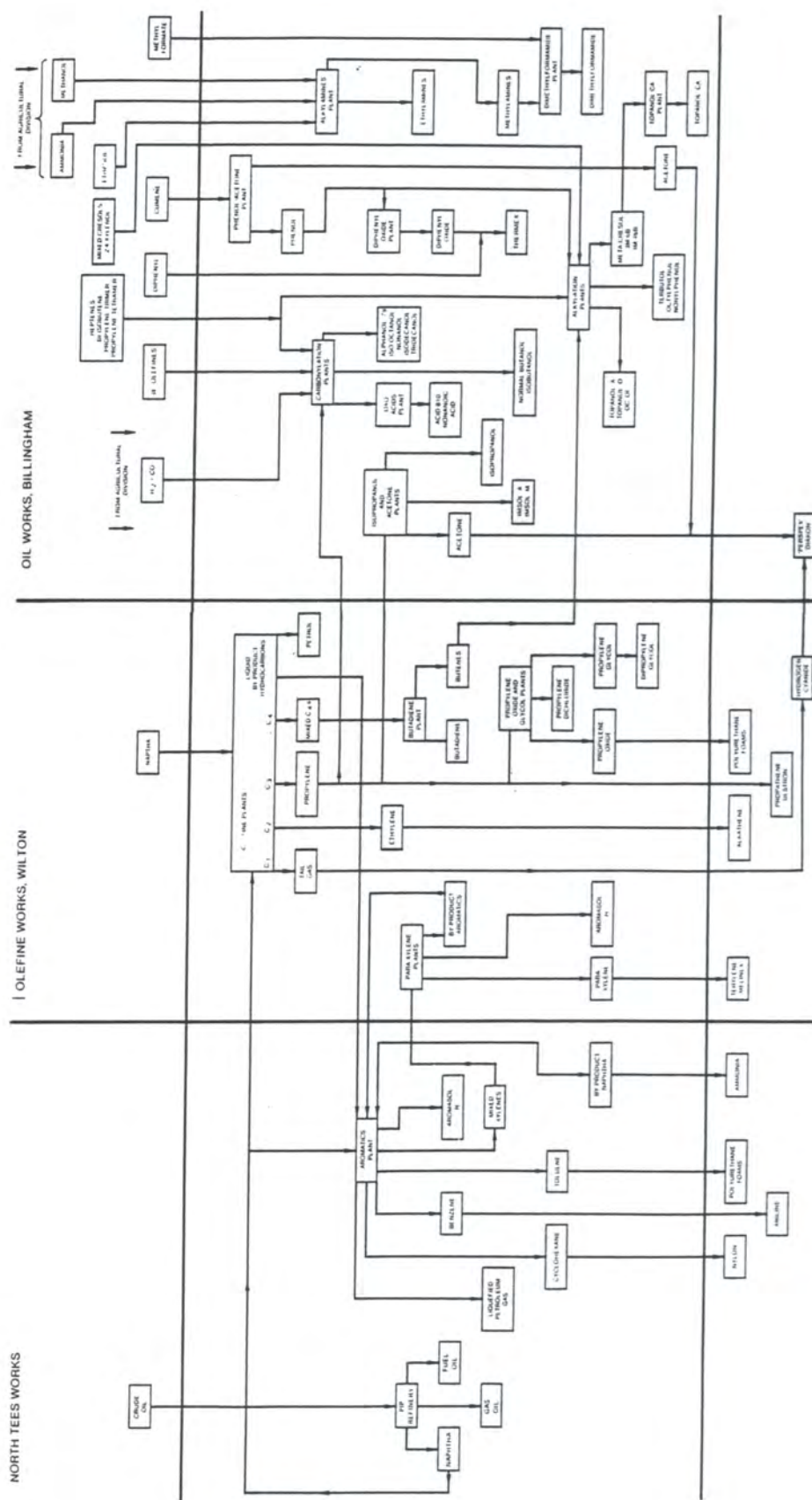


Figure 4.7. Linkages between ICI plants on Teesside (adapted from Hudson, 1983)

Occupations were characterised by demarcation barriers between administrative and plant operators and, especially, among the latter. A deep division existed between process and craft workers, who lived completely different lives within the company: contrary to craft workers, process workers were organised according to shift patterns to secure continuous flow. Although ICI offered favourable work conditions to all its workers in terms of wage levels and security of employment, the main division between plant and craft operators concerned earning levels. In contrast to craft workers, process operators could move upwards in the earning grades by increasing their wage levels. It is in consequence of demarcation and financial restrictions that practices such as overtime started to be systematically used among craft workers with important implications for company costs.

4.8. The decade of transformation: from the mid-1980s to the mid-1990s

4.8.1. The general economic context: international and local trends

The 1980s opened with a situation of accentuated over-capacity which had started to afflict the international chemical market from the end of the 1970s. A series of circumstances explain this situation. First, the growth of the chemical industry was seriously halted by the rise in the price of oil following the two oil shocks. These impacted on the cost of raw materials and contributed to erode corporate profit margins⁴⁷. Second, during the same period, many oil- and gas-producing countries, such as several Middle-East countries, developed technological capacities to enter processing operations, whereas other countries, such as Brazil or South Korea, entered the market with their own chemical and petrochemical products (Hudson, 1983). Third, it was apparent that the industry was approaching maturity. As indicated, “the difference between its growth and that of other sectors began to narrow. This was mainly due to the diminished opportunities for substitution and the onset of market saturation” (Chapman, 1986:40). Yet, “the industry also failed to maintain the growth dynamics previously based upon product and process innovation” (ibid.). While a few new products had been introduced since the period of major expansion, the reduction of costs and the search for profit was mainly achieved through the intensification of economies of scale. As a result, the global chemical industry faced a downward slide characterised by falling

⁴⁷ According to Ballace, it is for this reason that the industry became increasingly feedstock oriented rather than capital oriented (quoted in Chapman, 1986:41).

prices and over-capacity, leading to stagnant demand and production throughout the 1980s and 1990s (Financial Times, 18-11-1997).

Teesside, as a major international centre for chemical production, was seriously affected by the new market conditions. The Wilton works especially were penalised by the increase in the cost of raw material. As a consequence, projects were made to replace naphtha (from oil) with ethane (from natural gas) as feedstock by exploiting the large deposits existing in the North Sea. It was increasingly evident in fact that the petrochemical and the plastics business were facing a period of low profitability due to excess ethylene production. Implications on employment dynamics became soon apparent. During the period 1971-1984, nearly 14,000 jobs were lost in the industry (-42.1%) and the share of the sector as a proportion of total employment in the county fell during the period from 14.1 to 10.5 per cent (Chapman, 1986). The poor performance of the international economy however should not be counted as the only responsible factor for the decline of the chemicals sector on Teesside and, more in general, in the country. UK productivity in the industry had consistently lagged behind the levels achieved elsewhere. Low levels of investment especially contributed to lower levels of output in the UK with respect to other European countries (ibid.). Further in 1979 and 1980, the UK chemical industry suffered from a domestic economic policy leading to the over-evaluation of the pound against the US dollar and the Deutschmark (Pettigrew, 1985)

4.8.2. ICI's strategy in a changing scenario

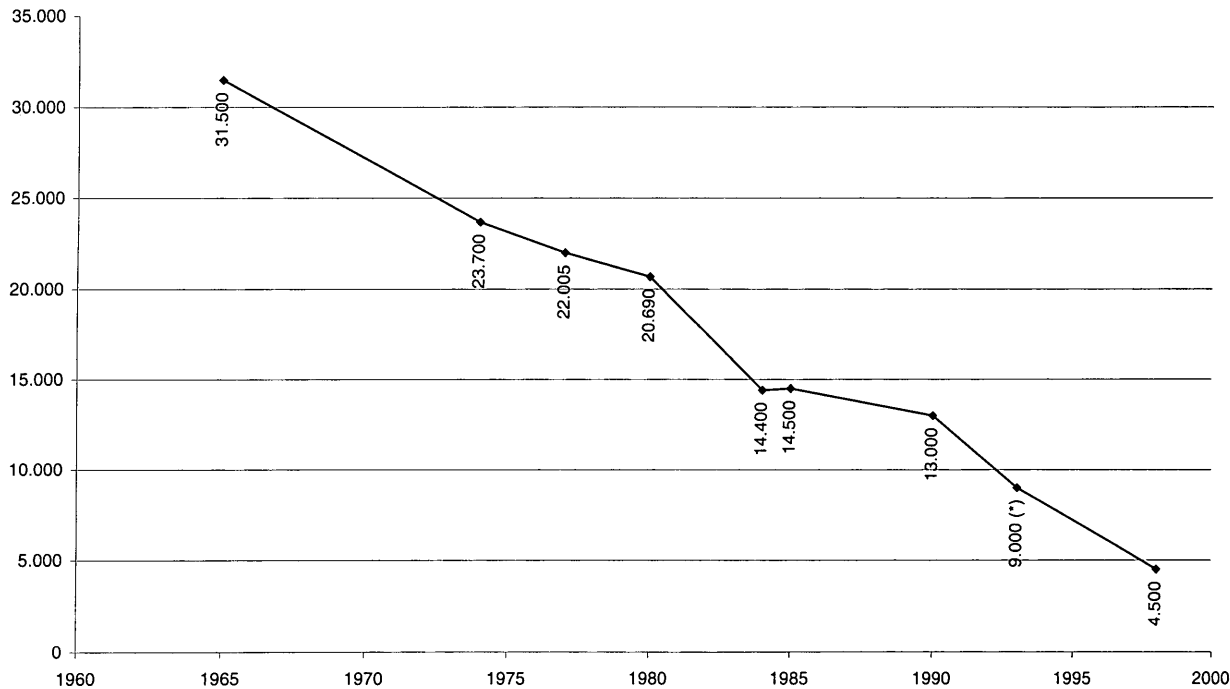
ICI's problems appeared to be even more complex. At the beginning of the 1980s, the company was trapped in a slowly growing domestic market⁴⁸ and it was extremely dependent on petrochemical products whose markets had slowed consistently their trends of growth. ICI was a company substantially reliant upon low-profit products in slow-growing markets (Arora et al., 1998). Its financial performance was soon affected: profits as percentage of sales dropped from 11.8% of 1979 to 5.8% in 1980 (figure 4.8.). On Teesside, during the period 1977-1984, ICI's employment declined by 34.6% (figure 4.9.). The other element that had contributed to penalise ICI's position within the chemicals market during the late 1970s-early 1980s was the lack of an adequate programme of investments.

Figure 4.8. ICI Profits as a percentage of sales during the 1970s and 1980s
(selected years)



Source: ICI Annual reports

Figure 4.9. ICI's employment trends on Teesside
(selected years)



Source: Chapman, 1986; interviews, 1998. (*)= Zeneca demerger.

⁴⁸ Pettigrew (1985) shows that 50% of sales and 75% of profits originated in the UK.

The company reacted to the changing economic scenario by embarking on an extensive process of restructuring. It soon became clear that a shift in its long-term strategy was occurring and that the centrality of Teesside within it would be questioned. As commented by a company's manager in an interview:

“The main board decided that ICI was going to specialise rather than have a wide business portfolio and to move away from heavy chemicals to speciality chemicals, with all that goes with it”.

The new business strategy consisted of a more focused business approach leading to the sell-off of businesses connected to the heavy end of production (petrochemicals, halochemicals, etc.) and privileging the expansion of the more profitable so-called light chemicals⁴⁹ (commodity chemicals).

Whereas up to the mid-1980s, the company had pursued a strategy of diversification, covering a wide range of products, the decade from the mid-1980s to the mid-1990s marks ICI's search for niche and less volatile markets. In less than two decades, ICI shifted “from diversity to focus, concentrating on core activities in global markets in which it has or can achieve a competitive advantage to become a world leader”, through selective acquisitions, divestments of weaker activities and asset swaps with its competitors (Cleveland County Council, 1994:7). 1985 constitutes the first relevant turning point as it marks the year in which ICI definitively retreated from the polyethylene production, following a decision made in 1982⁵⁰. The move towards the final segments of the chemical production implied a complete transformation of its previous business philosophy. The wide range of products which it used to sell became relatively few items; the large volumes of production became relatively low-volume batches requiring intermediate products and high knowledge-based processes. Moreover, the business re-positioning marked the end of the consolidated idea of ‘the financial compensation among businesses’: that is, the idea that financial losses in one of the businesses could have been annulled by financial gains in another one. As explained by a senior manager of the company in an interview:

⁴⁹ The term light chemicals refers to the products derived from the last phases of the chemical production which provide higher added value. Examples are paints, fragrances adhesives, etc.

⁵⁰ In 1982, ICI and BP (British Petroleum), its major internal competitor in petrochemicals, announced a joint programme, according to which ICI increasingly specialised in the production of polyvinyl chloride (PVC), in which it had a competitive technological edge, and BP in the production of polyethylene. Following this agreement, ICI closed one of its plants in Wilton, with a loss of 700 jobs.

²⁰ Zeneca's production is articulated on three main divisions: pharmaceuticals, agrochemicals and seeds and specialities, with key products being Quorn and Biopol, a biodegradable plastic.

“ICI had a whole range of business starting from heavy petrochemical to chemical to the pharmaceutical end. If you look at the demand for those individual businesses, the corporation as a whole was not generating sufficient profits. At one time that was not actually a problem because at that particular time [during the expansive phase] there were some merits in having this wide business portfolio because if one business was not doing so well then another business could prop it up. That was the strength on Teesside”.

It is during the 1990s that the programme launched in the 1980s was accelerated (table 4.5.). ICI proceeded to a plan of large scale ‘sell-offs’, whose apex was achieved in 1993 with the demerger that created a new company, Zeneca. With this operation, ICI retained the production of industrial chemicals, paints, materials and explosives, whereas Zeneca took over ICI Bioproducts at Billingham⁵¹. The new ICI started to rely upon relatively few businesses which are expected to ensure the financial viability of the company in the future. Although entering segments of the market where no clear leadership is delineated and where it wants to gain its dominance, “the key to remaining profitable is internal efficiency” (ICI Annual report, 1985:2). This is ensured on the one side by the increase in productivity and high performances and, on the other, by the reduction of costs. Indeed, “commodity chemical operations resemble mature manufacturing business in that their profitability depends more on careful management than on substantial new research and capital expenditure” (Arora et al., 1998:327).

Table 4.5. ICI in transition - The 1990s

YEAR	DEAL - Closures and Sales	DESCRIPTION
07\1990	Closure of the Billingham fertiliser plant	Fertilisers
10\1991	Closure of the Diakon plastics plant at Billingham	Plastic chips
04\1992	Closure of ADN plant - Wilton	Adn is an ingredient in the manufacture of nylon
06\1992	Announcement of closure of Billingham Phenol Plant	Material used in the motor and construction industries
06\1993	Demerger - ICI and Zeneca	Zeneca took over ICI bioproducts at Billingham: pharmaceuticals, agrochemical and seeds
05\1993	Sale of dry ice business - Billingham	Carbon dioxide used by airlines for cooling food to Hydrogas, a subsidiary of a Norwegian firm
11\1993	Sale of Central Engineering Services	engineering support operation
03\1994	Sale of Polypropylene to BASF, announced in 1993	second largest producer
02\1995	Sale of Ethylene Oxide and Derivates	to Union Carbide (USA) soon to be bought by Dow (USA)
04\1997	Sale of IT, voice and infrastructure services	to IBM Ltd (USA)
12\1997	Sale of the Fertiliser business	to TERRA Industries Inc (USA)
01\1998	Sale of polyester, intermediates and polyester firm	to DuPont (USA)
11\1998	Closure of the sodium cyanide facility at Billingham	Sodium cyanide
08\1999	Sale of the Wilton cracker (olefine 6)	to Huntsman (USA) - this ends joint-venture with BP. The purchase also included ICI aromatics at North Tees and Tioxide (now called Huntsman Tioxide)
1999	Sale of the acrilics business (opened in 1993)	to INEOS, a management buyout French-owned
1999	Sale of infrastructure services	to EtoI subsidiary of ENRON

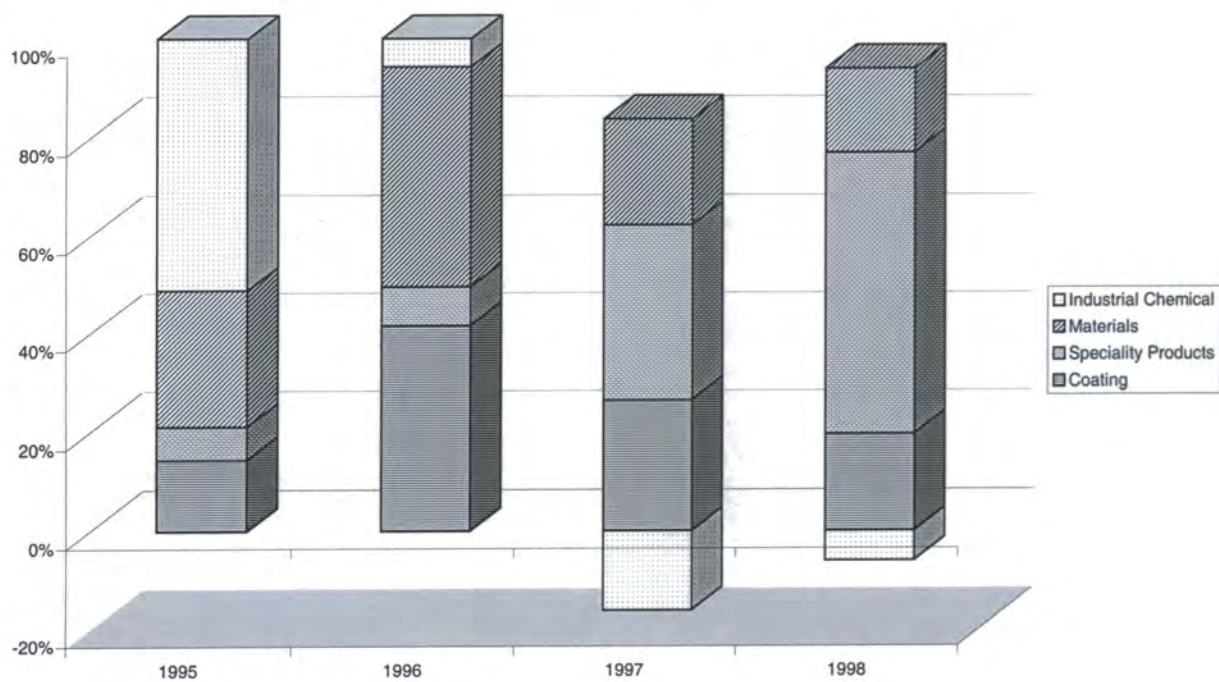
Table 4.5. ICI in transition - The 1990s

YEAR	DEALS - Acquisitions and Rationalisations	
10\1990	Tioxide total acquisition	Producer of titanium dioxide and pigments used in plastics and paints Production of PET (polyethylene terephthalate) recyclable plastic 15 year deal for cheap supply of electricity from the Enron gas fired power plant for the Wilton site
06\1992	Expansion of the Melinar plant - Wilton	
08\1992	Electric supply from Enron	
01\1993	Announcement of asset swap with BASF	Exchange of the polypropylene plant at Wilton with BASF's acrylics in Germany and Spain
07\1993	DuPont asset swap	ICI takes the control of the American company US acrylics in exchange DuPont receives the Wilton nylon chemical works
03\1993	Rationalisation of ICI Films	Film's commercial division moved from Welwyn Garden City to Wilton
04\1993	Opening of Monomer 8 Acrylics Complex	Production of methyl methacrylate used in perspex
	1997 Acquisition of Speciality Chemicals	from Unilever
	1998 Joint venture with BP	Computerised control system for the Wilton cracker
	Operations for sale	
	North Tees plants	Aromatic chemicals for fibres, textiles and dyes
	North Tees	Oil refinery
	Billingham	Methanol facility

Source: Chapman, 1986; Interviews, 1998; TVJSU, 1999

In 1997, ICI tried to further define its focus away from commodity chemicals towards speciality chemicals⁵², by acquiring Unilever's speciality chemicals businesses and selling the polyester and titanium dioxide businesses. This shifted ICI "decisively away from cyclical, low-margin commodity chemicals towards higher-value, less capital-intensive, knowledge-centred businesses based on tailoring technology to customers' needs" (ICI annual report, 1997:9). ICI's portfolio is now composed of coatings, speciality products, materials and industrial chemicals (table 4.6.). Substantial growth is expected from speciality chemicals, from coatings and materials while industrial chemicals will make up a smaller part of the company's portfolio (figures 4.10. and 4.11.).

Figure 4.10. ICI Trading profit



Source: ICI Annual reports

⁵² In these businesses, firms focus on the quality of products and on the customer satisfaction.

Table 4.6. The New ICI

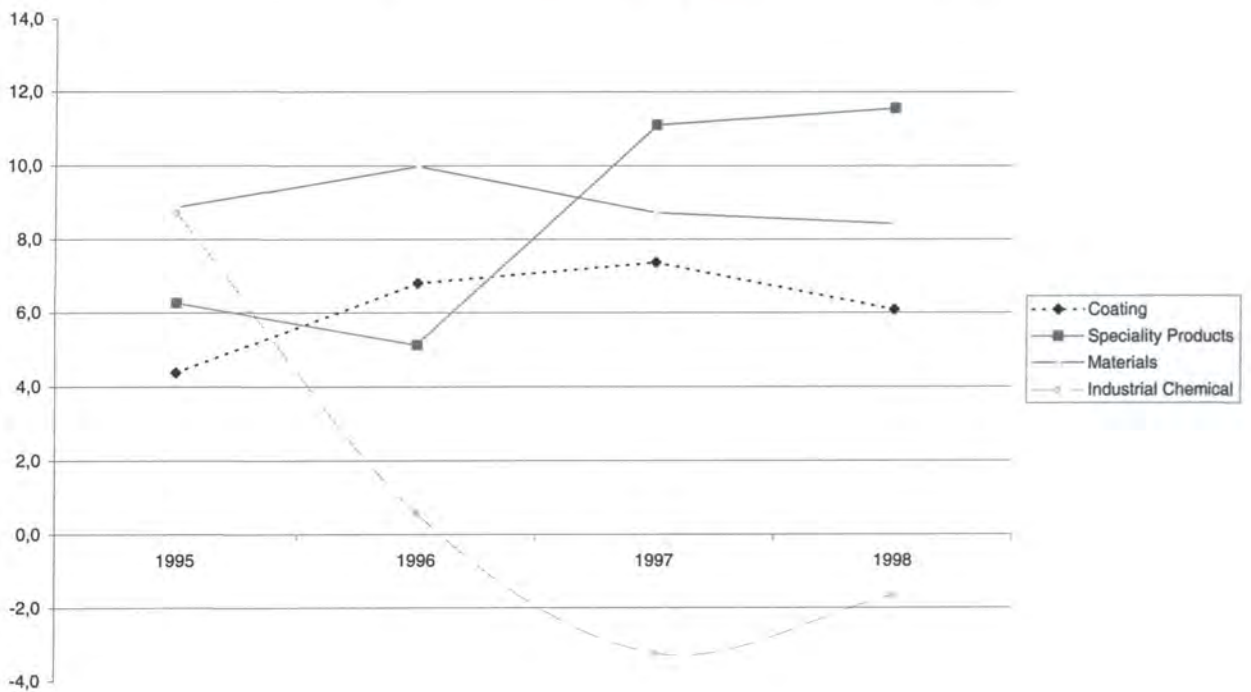
Business area	Business description	Examples of applications	Financial information, 1998
Coatings	Decorative paints (interior and exterior paints; varnish, woodstain)	Decorating and protecting	Turnover £2,167 m
	Refinish paints (vehicle repair paints)	Re-spraying and repairing damaged vehicles	Trading profit £132* m
	Packaging coatings (internal and external coatings)	Coating food and beverage cans and flexible packaging	Net operating assets £ 1,114m
Speciality products	National starch (i.e.adhesives, sealants, resins, ind starches)	Packaging, converting, food and beverage processing, water treatment	Turnover £3,329m
	Quest (fragrances, fragrance materials, flavours, food ingredients)	Prepared food, beverages, dairy products, detergents, fine fragrances	Trading profit £385*m
	Industrial specialities (speciality oleochemicals, silicas, silicates, catalysts, inorganic fibre)	Personal care products, agriculture	Net operating assets £ 2,461m
Materials	Acrylics	Adhesives, inks, sealants, baths, worktops, lenses, medical instruments	Turnover £1,352m
	Polyurethanes	Insulation materials, vehicle components, footwear, construction materials	Trading profit £114*m
Industrial chemicals	Petrochemicals		Net operating assets £ 1,002m
	Halochemicals	Polymers, fibres, fuels, ethylene	Turnover £2,466m
	Regional businesses	Plastics, soaps, detergents, solvents	Trading loss £41 m
		Remaining explosives activities	Net operating assets £ 1,457m

*=After amortisation of goodwill of £23m (national starch £12m; coatings £11m)

Source: ICI Annual reports



Figure 4.11. ICI Profits as a percentage of sales for classes of business



Source: ICI Annual reports

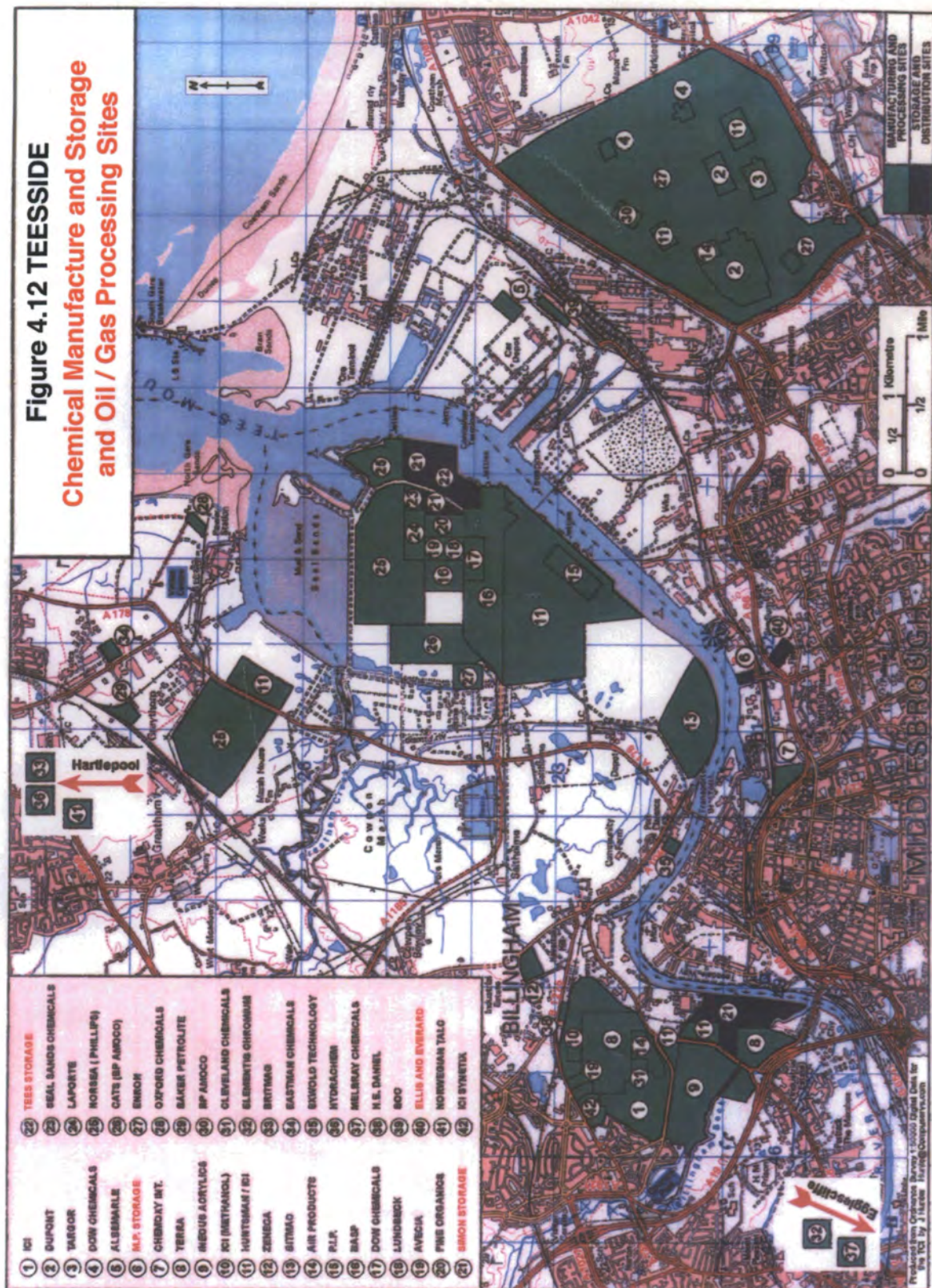
Operations on Teesside have been heavily penalised by the company's business re-organisation. The latest initiative concerned the solid cyanide facility, part of the acrylics business, which was closed in 1998. At the same time, ICI "invested £10 million on a state-of-the-art computerised control system for the Wilton site cracker, a joint venture with BP. ... the new system will, ICI argues, keep the olefins complex at the forefront of the most efficient European producers" (TVJSU, 1999:4). The most important investment for ICI on Teesside is represented by Syntex which is believed to be the only ICI base in the area (ibid.). Syntex, with about 700 staff, is a science company working on catalysis, a highly sophisticated element of the industry. In addition to the traditional use of this technology (for fertilisers, methanol and refinery, for various forms of hydrogen and other gas purification but also for the process which takes the sulphur out of the North Sea gas), Syntex is expected to increase company's exports globally where it is confident to assume a leading role in absence of any dominant player. Collaborative initiatives have been undertaken to support this new business⁵³. At the end of its business re-positioning, the company -ICI- that once used to identify a place -Teesside- had no significant businesses in the place. The geography of the

chemical capital in the area is now more diversified with a large number of foreign-owned players engaged in a plurality of chemical productions (figure 4.12.).

To summarise, the ten years between the mid-1980s and the mid-1990s marks the transformation of the chemicals industry on Teesside with the main actor of such a change being ICI. The situation of over-capacity afflicting the industry, the low levels of investment and the end of market leadership were the principal factors to affect ICI performance and to force it to undertake a business re-organisation. Job losses in the company have to be linked to the strategy of concentration and specialisation with which it abandoned an array of productions connected to heavy chemicals to enter niche and less volatile markets connected to the light segments of the chemicals production. This has also required the reduction of internal costs as the means to maintain adequate profitability levels. Consequently, the cost-cutting policy inaugurated by ICI and centred upon the heavy rationalisation of the costs of labour has been consistent with the evolution of the company.

⁵³ Syntex and Kvaerner intend to exploit future demand for methanol as a major source of fuel for cars and buses. A further collaboration has been undertaken with the German group Krupp, focussing on the reduction of ammonia and fertilisers production costs, thanks to the improvement of Syntex catalysts (TVJSU, 1999).

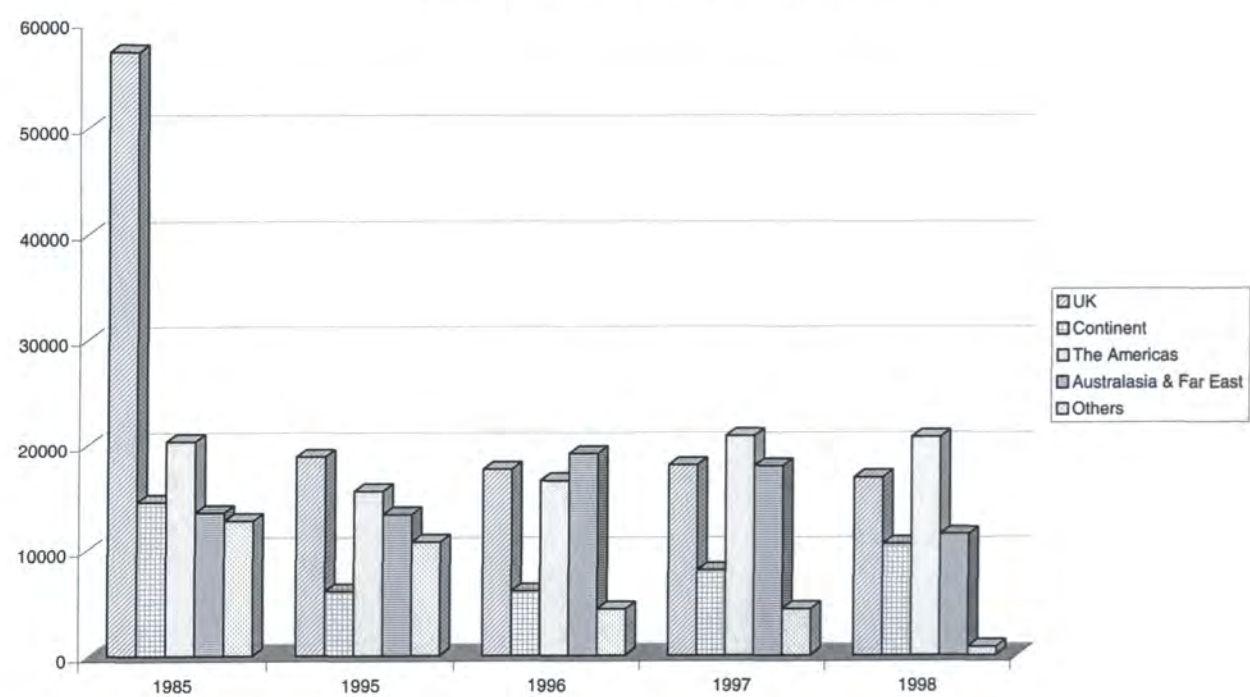
Figure 4.12 TEESSIDE
Chemical Manufacture and Storage
and Oil / Gas Processing Sites



4.8.3. Changing the employment relationship: the centrality of the labour factor in the new ICI

The process of restructuring had had a considerable impact on the level of ICI employment in the UK (figure 4.13). Although it is difficult to ascertain the full extent of employment decline, given that some workers have simply changed job or have been deployed elsewhere within ICI, it is no exaggeration that, on Teesside, in the period 1981-1993, the number of workers employed directly by ICI has fallen by around 50% (Cleveland County Council, 1994). At the beginning of the 1980s, ICI in Cleveland employed around 18,000 workers, equivalent to about 80% of the total in the oil processing and chemical manufacturing industries. At the end of the decade it employed 14,500, while the current employment base of the company is merely 4500 workers (Cleveland County Council, 1994; interviews, 1998)⁵⁴ (refer to figure 4.9.).

Figure 4.13. ICI Employment trends by geographic areas



Source: ICI Annual reports

⁵⁴ The chemicals sector has declined over time and this negative trend has an even greater impact when considered as a proportion of total employment, because, in more general terms, manufacturing employment declined at the expense of the service sector (Cleveland County Council, 1994).

What role have labour costs played in the restructuring process? The downsizing of its workforce has not been the only means through which ICI has cut the cost of labour. The company used rationalisation to radically alter its model of employment relations. Given ICI's importance in the chemicals sector of the area, the whole industry saw the re-definition of employment relations, now characterised by the clear prevalence of company's objectives upon workers' interests, and the modification of the previous industrial culture. There is no doubt that the process of transformation leading to the slow demise of the rooted paternalistic and harmonised system of industrial relations proved painful and hard to accept. This is because the modification of a consolidated industrial culture needed the transformation of the system of symbolic representations crystallised into the initial pact linking the company, the workers and the community and perpetuated during the time by the prevailing organisational culture. Paradoxically, in fact, whilst there was a widespread awareness that the ICI model of employment relationships was no longer sustainable, the path to renewal proved extremely difficult to be undertaken and not because of the incapacity to see that the change was unavoidable. For many years, in ICI, there has been a tacit denial that the model was at its sunset and this to remove the negative implications connected to the process of restructuring and the difficulty to delineate a new model of corporate relations.

ICI's approach to redundancies provides a clear example of the difficulty of the company to openly recognise that a change was being implemented. Its policy strategy with the workforce shows its reluctance in admitting that the old social pact linking the company to the workers and the community was irremediably compromised. During the phase of restructuring, and except for specific episodes of plant closure, ICI has never made people compulsorily redundant. It has always tried to ensure that all its operations of selling or acquisition would not involve job loss. "Rather than closing the plants, what we would look for is a good buyer that would see that particular business strategic to their aim and would want to invest in its long-term future" (senior ICI manager in an interview). In practice, this formal commitment towards the workers simply passed the task of industrial redundancies to the companies that replaced it⁵⁵. For many workers the 1980s represented the end of an old working culture.

⁵⁵ The most vivid episode occurred in 1994. A year after the business swap with ICI, DuPont announced the closure of five nylon intermediate plants at Wilson, while launching a major expansionary programme in Europe. The intervention of the European Union prevented the loss of 520 jobs.

Re-organisation of work and labour prerogatives

ICI has implemented large scale use of external flexibility mainly in the form of outsourcing while, internally, it has introduced functional flexibility especially among its most skilled workers⁵⁶. Many of the previously in-house services have been outsourced, notably maintenance, cleaning, catering but also engineering activity, training and consultancy work. From the company's perspective, the use of flexible work arrangements satisfies a twofold objective: it has allowed consistent savings on the cost of labour and it has also decreed the end of traditional work practices such as demarcation and overtime. As stressed by an ICI's manager in an interview:

“we couldn't sustain them [in-house services] anymore. When we provided them internally, we were paying a higher price. ... we make chemicals. Now either you reduce the cost of making it or you reduce the cost of support services. We have tried to do the latter. We want to pay at a market level. For us it was a way to reduce the cost of labour. The over-time was the root of all the problems. On the top of the pay, workers could make more money working extra-hours. If something broke on Saturday or Sunday, we had to wait for the specialists, who were paid a lot. Over-time is now very limited. People have to work 36 hours per week. The company has decided to give 'benefit time hours': in practice, it will pay an extra 160 hours for each worker. The demarcation, main cause of the problem, has been removed”.

'Flexibility' has involved two aspects. First, the process of business re-organisation and outsourcing has clearly produced a cleavage between a core and a peripheral workforce. The much reduced core segment works in the chemical companies, whilst the expanding peripheral workforce is in subcontracting firms. Second, there have been important changes in the terms and conditions, previously rather homogeneous, on which employment in the two segments is offered. Advantageous and stable contracts are typically offered to workers in the first segment of the market, whereas for peripheral workers, wages and working conditions have deteriorated as companies are able to recruit informally and reduce job security. Politically, workers' partition is likely to have contributed to the erosion of workforce capacity to express homogeneous interests but also to increasing uneven living standards and patterns of consumption related to the employment status.

The use of outsourcing has numerous implications for the wider labour market. It emerged during the interviews with the representatives from grass roots voluntary organisations and statutory organisations as well ex-workers that, for ICI and other chemical companies,

⁵⁶ See e.g. the Staff Agreement of 1991 under which ICI's North Tees site was the first to embark upon flexible working (Cleveland County Council, 1994).

subcontracting has meant a reduction of the actual price of the subcontracted activity as well as a reduction in labour costs, given that “when you outsource, you’ve got less people on the book” (interview with an officer of a local economic organisation). However, subcontracting also allows companies to cope more easily with demand fluctuations. The cyclical nature of especially chemicals does not make it easy to foresee business changes; with the use of service activities only when necessary and for limited periods of time, a company reduces the amount of its fixed costs. In addition, the outsourcing of support activities is deemed to have a direct effect on the provision of services (e.g. quality, costs, time). Finally, the new pattern of productive organisation and relations allows the exercise of a heavier and extensive control of chemical companies over subcontracting ones.

Industrial relations

The modification of industrial relations at the workplace has been no less profound. It is during the 1980s and, more widely, during the 1990s that the traditional model of consensus between capital and labour entered a crisis. The corporate decision to found the new ICI coupled with a favourable anti-union climate, with new approaches to the management of human resources, exalting team work and personal commitment, and with the increasing accountability of companies to stock market and to shareholders⁵⁷, to accentuate all the limits connected to the company’s traditional industrial culture. Increasingly, the joint decision-making process and regulation of work practices and employment relations was seen as a constraint on management freedom to adjust work organisation according to the company needs and to practice individualised employment relations.

“Those practices were institutionalised and negotiated at the top management level”, “certainly, local managers did that [accepted those practices] because it gave them a quite easy life”, “around the mid-1980s, the top management started to be reluctant to continue to apply them. The culture of the centre was soon passed to the line” (focus group with ex-ICI workers).

The recognition of human resources as the most valuable assets and the importance of co-operation and collaboration among capital and labour have not been put under discussion but it is the climate in which they occur that has changed. Collaboration and co-operation are now

⁵⁷ The comparison between two statements contained in two different ICI annual reports (in the first, ICI states its aim in the enhancement of “the wealth and well-being of our shareholders, our employees, our customers and the communities which we serve to operate”; in the second, it is said that “our aim is to maximise value for our shareholders”) has led John Kay, Professor in Economics, to talk, in the annual conference of the Confederation of British Industry, about a ‘deformed style of capitalism, based on a mistaken view of the functions of a business organisation’ (the Journal, 12-11-1996).

conceived in a context where the company's achievements are prevalent over worker interests and functional to the fulfilment of its business results. With much more limited power, local unionists seem to have accepted the new collaborative culture on Teesside as the only one that can ensure jobs. As the local official for the industry put it in an interview:

“A collaborative culture is growing. Workers have understood that without changes they haven't got any option. They will adapt because they need to adapt”.

4.9. The institutional construction of the unemployed people

This section focuses on redundant workers. To polarise the argument, orthodox economic analyses regard people who lose their jobs either as the result of the mismatch between demand and supply of labour (neo-classical view) or as the pool of workers who are functional to the process of capitalist accumulation (Marxist tradition). I argue instead that they are the expression of non-neutral choices made especially by companies but also by workers and unions to changing productive requirements. In chemicals, the phase of restructuring with the consequent loss of jobs appears to have satisfied the twofold objective to marginalise undesirable workers, embodying social and technical values unsuitable for new industrial requirements, and to mould the remaining workforce around new values.

It is important to stress that the process of lay-offs has never been impartial. Whilst formally voluntary⁵⁸, redundancy choices have been characterised by heavy management intervention to 'encourage' certain types of workers to leave. The underlying aim was to end a culture of work which was considered incompatible with new corporate requirements as well dangerous for future achievement. As explained to me by the personnel manager of a medium size chemical company:

“We had lots of problems with the unions and obviously with the workers. They wouldn't change, they wouldn't acknowledge that they had to change to be more competitive, there was a lack of realism on the shop-floor”.

As acknowledged also by an ex-worker:

“it was extremely difficult for plant managers to transmit the new values requested by the company to their workers. Especially plant operators, they were extremely resistant to change. They

⁵⁸ This means that many workers left their jobs on the grounds of personal choice.

[managers] weren't able to obtain radical change in work culture and in work practices. This is also why there have been business changes. In small businesses management could have intervened better".

Those who were reluctant to abandon traditional work values (job stability, adequate wage levels, good quality of work, collective bargaining) for a new work culture (flexibility and individual responsibility and accountability) became the primary targets. The alignment of "all employees to business aims" and to a system of "360 degree appraisal" which would have characterised "individual performance reward"⁵⁹ was deemed necessary. As indicated to me by a senior manager of an important local company:

"We looked at the production people. We were able to check who had poor attendance record, sickness record, people who had limited standards in terms of their performance based on competence and skills, and we made a selection, after inviting volunteers. ... Independently from age, skills, etc., the production manager sat down and rated every operator on the books, awarded points for the criteria".

An example of the work practices which local managers considered unacceptable is given below by the personnel manager of a medium size chemical company:

"It was time to change [around the 1980s]. We had bonus schemes that were put in 30 years before; the machines no longer existed while the bonus schemes were still there. You could walk around the factory at 2 o'clock on any afternoon and people were literally going through the motions. They were not doing anything because they had decided they had done enough for the day, they got the bonus they wanted".

Contrary to what is generally believed, therefore, redundancies allowed companies to move away undesirable members of their workforce and to create a climate whereby the workers left at work⁶⁰ accept the new organisational values:

"The situation at work is much worse now. People are frightened and unhappy. The family environment has been lost. Now managers expect much more from people, but without training and stuff like that is a bit difficult and it's also dangerous to be flexible in this way. They want people to do more than one thing but people are fed up and stressed about work. Now many more people go on sickness: there is more stress and less commitment" (an ICI worker in an interview).

⁵⁹ These expressions appear in a confidential document of an ICI senior manager.

⁶⁰ It is a well-known problem on Teesside that the chemical workforce is an ageing one. Processes of restructuring, involving the industry, have for many years prevented companies to be active recruiters (Teesside Chemical Initiative, (TCI), 1998).

4.10. Conclusions

According to the standard view on industrial unemployment, the regulation of the employment relation is the main cause that compromises corporations profitability performance as it leads to the ossification of employment conditions and work practices and to an upward pressure of wages. I have argued instead that rather than depending on wages, redundancies in the chemical industry on Teesside are the outcome of a process of industrial adjustment initiated by ICI to respond to a changing economic scenario that was jeopardising its market dominance. The adjustment path has been centred upon the re-organisation of the business activity and the re-configuration of the model of employment relations that had historically defined the area's capital and labour relationship and made possible the demand-led growth of the industry on Teesside.

With concern to its re-organisation, until the mid-1980s, ICI was an integrated system, embracing all the phases of the production process from the refinery of raw materials to the downstream activity. The company retained 'in-house' all sorts of support activities. The enhancement of a new way of making business and managing industrial relations has obviously altered the previous productive framework. Specifically, the double movement towards progressive specialisation on core products and the extended use of outsourcing for non core activities is leading towards a greater diversification of the sector⁶¹ but also to a growing inter-firm integration whose impact on the quality of labour conditions gives cause for concern (table 4.7.).

⁶¹ The industry produces at least 300 different chemicals (TVJSU, 1999).

Table 4.7. Employment and productive change in the chemical sector on Teesside

	Before the mid-1980s	After the mid-1980s
Relations of production	Monofirm. Integrated system of production from the refinery of raw materials to downstream activity. In-house support services	Inter-firm integration: chemical firms towards specialisation; subcontracting firms: core-peripheral activities
Employment conditions	Industrial relations: Co-operative, joint regulation of employment conditions, harmonisation of capital and labour interests Work practices: demarcation lines among tasks and occupations; over-time	Company prevalence, workers' acquiescence; Company accountability to stock market and shareholders Segmentation: primary and secondary labour markets
Reproduction of labour	Waged labour according to the pact 'stability, security, good work conditions in exchange of continuous growth in productivity'	Waged labour according to flexible work arrangements and non-standard contracts Cost of labour as a non-fixed cost

The activity of business selling, of assets swaps and merger has brought on Teesside the presence of chemical multinationals besides medium and small size companies, already settled in the area. At the moment, the area's chemical companies work on different sub-sectors of the chemicals market. However, besides a diversified core of chemical productive units, there exists an increasing number of companies that surround and support chemical activity. Yet, a further segmentation occurs among subcontracting companies. This label gathers in fact companies specialised in the provision of completely different services. Catering, cleaning, scaffolding or painting companies and, to a certain extent, maintenance companies provide the least specialised and skilled services; engineering constitutes instead a highly sophisticated activity. The focus on the relationships between chemical firms and subcontracting ones allows the understanding of the new organisation of production in the sector. Chemical companies tend to have privileged and stable relationships only with the group of subcontractors that provide the most specialised services and whose activity is ensured through a good financial compensation. Conversely, the relations with low quality

subcontractors are more tenuous, distant and extremely volatile. Two main interconnected reflections can be drawn from the above points. First, there is a dimension concerning power relations to be accounted for. It is clear that local chemical companies exercise a different influence upon their subcontractors in relation to the conditions and the price of their service provision. Therefore, whilst highly specialised companies have a rather wide negotiating power due to their expertise and to the lower level of competition in their market, the same cannot be said about catering or cleaning companies which are subject to a harsh competition to obtain and hoard contracts exclusively on the base of the price of the service. Second, the findings suggest that the subcontracting is translating into a new and more intense form of control especially for peripheral companies and workers. This control implies a more or less explicit indication of the conditions at which subcontracting activities have to occur (time, price, qualitative standards, etc.).

Redundancies, job insecurity and under-employment in the chemicals on Teesside have been the result of the change in the institutions regulating capital and labour relations. It can be argued, in line with the insights of the institutionalist tradition, that the problem of labour has emerged in coincidence with the transformation of the well-established employment pact, founded on the harmonisation of capital and labour interests, to a model of industrial relations characterised by the prevalence of capital interests on labour. For decades, waged labour in the chemical industry was understood, produced and reproduced to satisfy a model of capitalist accumulation based essentially on the stability, security and good conditions of waged labour in exchange of continuous growth of productivity, of demand and consumption (refer to table 4.8.). The picture changes around the mid-1980s. At that time the convergence of negative business conditions for the companies operating on global markets and the shift in policy values enhanced the view that the flexibilisation of employment conditions could have restored company profitability. The choice of flexibility and its implementation has had different implications for employers and workers on Teesside. From company perspective, it has strengthened their capacity to react to market changes; more importantly, it has meant the reduction of the cost of labour associated to the limitation of high work standards to the so-called 'core manpower'. From a labour perspective, there is evidence that flexible work arrangements have generally worsened employment conditions both in the workplace and in the wider labour market. Within workplaces, there is a strong feeling that management control on worker performances has increased the discontent of workers as well the vulnerability of jobs. For industrial unemployed, instead, the chances to get a new job in the core segment of

the market are reduced. For them, flexibility is more likely to mean the continuous entry into and exit from the peripheral segment of the labour market and the lack of bargaining capacity.

The current model of employment relations is evidently reproducing waged labour but its provision has to occur at particular conditions, namely according to flexible work arrangements and non-standard contracts, allowing a substantial attenuation of worker claims and a wider selection of the people to hire. The major drive underlying the re-definition of employment relations and relations of production has consisted of company willingness to return to consider the cost of labour as a non-fixed cost as the only means through which their profitability could have been restored. Chemicals companies are clearly attempting to limit standard employment contracts to principally avoid to sustain the indirect costs of labour (e.g. national insurance, health, holidays, maternity). This strategy is therefore ending up transferring a consistent burden of the welfare costs from profitable chemicals companies to the subcontracting ones which, regardless of their buoyancy, are called to face the management of complex and expensive work relations.

Part 3 - Explaining industrial unemployment in the clothing sector

4.11. Introduction

The UK clothing industry is “an old industry, grown out of domestic production of essential consumer goods, rising to national significance in the nineteenth century, to undergo since the Second World War, and especially since the 1960s, a radical shift in location away from industrialised countries of the first world” (Massey, 1995:148). Whereas various recessions have hit the industry during the past decades, the distinguishing feature of the current phase lies in the intensity and severity of the restructuring process which, on Teesside, has been characterised by plant closures and redundancies. The significance of the clothing industry in the area⁶² has weakened during the second half of the 1990s, and the most recent documents on the economy of the area reserve to it a limited mention⁶³. The reason is that in the last couple of years the industry has gone through the most serious process of restructuring in its history, leading to a substantial downsizing of the number of firms and of the employment levels in the area: in less than one year, from January to November 1998, approximately 450

⁶² In this part of the chapter, the term ‘Teesside’ is used in a less restrictive way as it includes Hartlepool where some important companies for the area’s economy are located.

jobs were lost in the sector whose estimated employment is of around 2,000 workers⁶⁴. In addition, two years earlier the closure of a plant in Redcar meant the redundancy of 530 workers⁶⁵ (table 4.8.).

Table 4.8. Details of redundancies in the clothing sector on Teesside

1997	Dannimac	Redcar	530 jobs	Plant closure
1999	Dewhirst	Redcar	404 jobs	Plant closure
1999	M&M Knitwear	Stockton	30 jobs	Downsizing

Source: Press Reports

More than the other industries, the clothing industry has become increasingly subject to the pressures of international trade and competition from low-labour costs countries. Whilst not wishing to deny the significance of the cost of labour on restructuring processes, I argue that company profit has been affected primarily by the modification of the relationship between buyers and producers according to which the former are requiring the same quality products at a more competitive price. Second, the push to lower the costs of production and, especially, the cost of labour, has forced local companies to a cost-cutting strategy that, besides some mergers and take-overs for the achievement of economies of scale⁶⁶, is consisting of the shift of production to low-labour costs countries⁶⁷. Third, the process of transformation of the industry on Teesside has been affected by specific institutional arrangements. The homogeneous restructuring path undertaken by the most important companies of the area, centred exclusively upon production re-location, reflects an industrial culture characterised by displaced entrepreneurs and peripheral workers.

Section 4.12. starts with a historical background of the industry on Teesside, then it identifies the current features of the industry and provides an analysis of the sociology of employment relations. Section 4.13. explains the nature of current redundancies in the area. An account of the change in the macro-economic conditions of the industry is given as well the process of adjustment undertaken by local companies to exploit inter-countries wage differentials. It is

⁶³ See, for instance, the economic audit of the TVJSU, 1999.

⁶⁴ Data from Teesside Training and Enterprise Council (TEC).

⁶⁵ Data from an interview to an official of General and Municipal Boilermakers (GMB).

⁶⁶ In October 1998, Courtaulds took over Claremont, while the year before it was Dewhirst which offered a bid for Claremont garments (Northern Echo, 19-2-1999).

also shown that a major explanation of current job losses on Teesside lies in the set of institutions underlying capital and labour relations which appear to have constrained the industry's restructuring options. Section 4.14. draws some conclusions.

4.12. Clothing on Teesside

4.12.1. Industrial features

The history of the clothing industry in the area follows two distinct phases (Hardill, 1990). In the late 1930s and, more extensively, in the post-war period, to overcome shortages of female labour, the Board of Trade encouraged the settlement of branch plants away from the traditional clothing heartlands (London, West Yorkshire and Lancashire). As one of the two regions where the industry was under-represented (the other being Wales), the north-east saw the settlement of branch plants in the area (ibid.). The second phase of industrial settlement occurred during the 1960s. A generous regional policy in the form of capital grants and labour subsidies favoured a substantial expansion of the industry during the period in which the traditional heavy industries started their phase of decline. Regional policy actors believed that female-employing activities could contribute to widen the occupational base of the region without undermining its traditional industrial structure.

The clothing industry on Teesside has been characterised by a larger presence of women - almost 90% of the total workforce in the early 1970s (5,207 workers)- when compared to the 80% of the region and of the country. In addition, at the beginning of the 1970s, 58% of Cleveland's clothing workforce was engaged in men's tailoring compared with 43% for the north as a whole and 27% for the country. As indicated, historically elsewhere men's tailoring concerns tended to employ a greater proportion of men (as cutters) than the industry as a whole (Hardill, 1990). This peculiarity reflected the area's dependence upon ready-to-wear clothes as opposed to made-to-measure clothes. In 1972, 58% of clothing workers were employed in men's and boys' tailored outerwear, while in 1986, the percentage falls to 25%. Almost 21% of workers worked in weatherproof outerwear and work clothing, while almost 15% of workers were employed into women's and girls' tailored outerwear (ibid.). Similarly as

⁶⁷ Dewhirst has opened new factories in Morocco, Malaysia and Indonesia (The Observer, 13-9-1998). Meridian, part of the Courtaulds group, is planning to open a factory in Morocco (interview with a manager of the company, 18-11-1998).

elsewhere, the industry on Teesside was marked by gender segregation. Cutting, considered as a skilled task, drew a higher pay but was a male preserve, while women were put on production line as machinists. According to Hardill (1987), however, the automation of the cutting process brought the demise of male employment. Instead, in the sewing process automation was restricted and this is for two reasons. First, increases in machine efficiency have a relatively minor impact on sewing costs. These account for 15-20% of a machine operative's work as most of the time is spent in loading and unloading fabric. Second, the physical properties of fabrics make it extremely difficult to devise machines which are capable of identifying a single ply.

With concern to employment, the first half of the 1970s constituted the period of major expansion and peak level in Cleveland was achieved in 1975 with 5,207 employees. However, the phase of decline for the industry was imminent and manifested in coincidence with the national economic recession dating the late 1970s. No openings occurred in the period 1976-1981, while half of the companies that existed in 1976 had closed by 1981, accounting for a loss of 1,638 jobs (Hardill, 1990). While employment stabilised in the 1980s, during the 1990s there were major job losses. At present, the industry employs approximately 2,000 people.

Currently, the industry is dominated by small companies (with less than 10 employees), usually family-based and sometimes of Asian origin. Small firms account for slightly less than the 55% of total companies but only a negligible amount of Teesside's clothing workers (almost 4%) (table 4.9.). Some are subcontractors to retailers, while others are involved in the production of medium-low quality products channelled through a range of retailers and department stores (TVJSU, 1999)⁶⁸. Medium-size companies (11-49 employees) constitute 20% of local firms with 8% of the total employment of the sector. 14.3% of local clothing companies are medium-large size (50-199 employees) and employ almost 25% of the clothing workforce. Finally, the structure of clothing industry on Teesside presents also a few large companies (11.4% of the total) which however employ more the 60% of the local clothing employment. These companies manufacture for the UK's major chain stores (Marks and Spencer –M&S, Littlewoods, BHS, Next), while some of them supply exclusively M&S⁶⁹.

⁶⁸ Secondary sources on this segment of the industry are practically non-existent and it proved impossible for me to gain a direct access to the local small companies during the fieldwork. Information used in the chapter derives from the conversations held with local unionists and economic officers which, however, offer a partial understanding of the dynamics affecting such companies.

⁶⁹ For example, this is the case of Dewhirst, whose total turnover derives from the sale of its production to M&S.

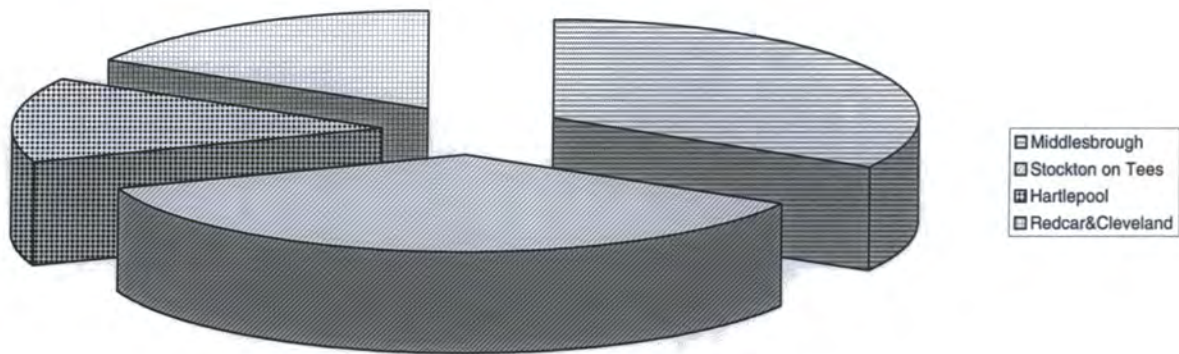
Table 4.9. Distribution of clothing companies by size and employment

Size	Absolute number	% Employment		%
1 - 4	13	37.1	37	1.9
5 - 10	6	17.1	38	1.9
11 - 49	7	20.0	158	8.0
50 - 199	5	14.3	494	24.9
+ 200	4	11.4	1258	63.4
Total	35	100.0	1985	100.0

Source: Teesside TEC

The geographical distribution of local companies shows a concentration of productive units in the Stockton and Middlesbrough areas (figure 4.14.).

Figure 4.14. Distribution of clothing companies by area



Source: Teesside TEC

Table 4.10. lists some of the main local companies and their productive specialisation. Two features characterise the industry in the area. First, technological innovation within local firms is low and inextricably connected to company size. Whilst it is true that the nature of the industry confines more than others the introduction of technological processes (Taplin, 1995),

the main reason behind such a technological delay lies in the low investment capacity of these firms that often do not find it profitable to undertake new investments when productive, hence profit, returns are not ensured. Second, the tendency towards mergers and take-overs has accentuated in the last few years. Recurrent recessive phases have brought the decline in the number of small activities which have either disappeared or absorbed by bigger units⁷⁰.

Table 4.10. Some clothing companies on Teesside

Name	Production
Baird Menswear Brands	Men's shirts
Bellrise Fashions Ltd	Ladies outerwear, skirts, dresses, suits
Brandtex Manufacturing Ltd	Ladies slacks
Bromley Fashions Ltd	Ladies skirts, dresses, suits
Dewhirst Ltd	Men's shirts
Eurasia Knitwear Ltd	Knitwear
M&M Knitwear Ltd	Knitwear
Meridian	Ladies underwear
Mother Ducks Childrenswear	Childrenwear
Quick a Stitch	Tshirt printing
Radar Clothing	Ladies and men outerwear
Scenetex Knitting Co	Knitwear
Steel River Textiles	Sportswear
Supreme Knitwear Manufacturing Co Ltd	Ladies outerwear, boys and girls outerwear
Typhoon International Ltd	Thermal underwear, jackets, outerwear, wet/dry suits

Source: Teesside TEC

Since the 1960s, after some decades when clothes were produced for independent shops, the rise of a mass consumption market deeply transformed the nature of the relationship between buyers and suppliers. Large retailers progressively pushed small ones out of the market while the largest manufacturers increased capacity and automated technologies. Smaller companies turned towards niches of the market. New market trends emerged during the 1980s around relatively high quality/high style products, also in the attempt to respond to competitive pressure from newly industrialised countries trading in cheap standardised products. Teesside’s clothing producers have nonetheless continued to rely on major chain stores for their market. Their business relations are hinged upon the so-called ‘preferred supplier’ model⁷¹. This is when retailers establish a long-term and close relationship with a core of

⁷⁰ Information from interviews with local trade unionists.
⁷¹ The emergence of this system contributed to the demise of both the ‘close control’ model and the ‘arms length’ model though it has changed substantially neither the retailers oligopoly in the market nor the producers weakness. The ‘close control’ model implies the direct and strict control of the retailers over the producers in all the stages of the production process, while in the ‘arms length’ model retailers are concerned only about the final product (Crewe and Davenport, 1991).

preferred suppliers. The largest clothing producers on Teesside have for long enjoyed the status of preferred suppliers, especially evident among the firms that supplied M&S. In return for stable contracts, M&S required its suppliers to ensure quality, low costs and to respect strict deadlines. At the beginning of the 1990s, for instance, one Claremont branch was able to get newly designed clothes into a warehouse within a week rather than in fifteen days was the norm during the mid-1980s. Dewhirst was able to turn over its stock every six weeks (Hardill, 1990). During the last years, this relationship, which allowed suppliers to maintain a reasonable profit, has undergone a transformation which is penalising them. M&S, for instance, returns work or imposes charges when it is not completed on time or to standard specifications. A local manager captures the nature of the new relationships between retailers and producers:

“If they [retailers] decide that they don’t want the garments you made, there is nothing you can do. You have to re-work them at your own costs, get them right, if they accept them. If they decide that something you’re making is not sellable, they can just decide to pull the plug on that particular line, and you have no work”.

4.12.2. Work and employment relations in the industry

Women constitute 90% of the clothing workforce on Teesside⁷² and this basic ratio has not varied over time. Similarly to other manufacturing industries where women constitute the majority of the workforce, clothing is characterised by low levels of earning; however, in contrast to them, the industry is distinguished by sweat-shop conditions which confines it at the lowest ranks of the employment ladder (Massey, 1995). As explained by a local manager in an interview:

“this industry does not attract the workforce. It is not a glamorous sector where to work in and young people prefer to look for other things, new industries”.

Work follows a Taylorist logic. An accentuated fragmentation of tasks⁷³ makes for repetitive job execution and a rigid sequence of work phases. It is for this reason that the introduction of team-work and the technical improvements of the production process although confined⁷⁴ are believed to lead to a slow modification of the traditional employment practices. First, in local actors’ intentions, the adoption of the ‘team work’ is expected to improve productivity and

⁷² Calculated on Nomis data, 1997.

⁷³ For instance, sewing is organised as a batch process with semi-worked fabrics going through a sequence running from under 5 to over 100 discrete sewing operations (Hardill, 1990:108).

ameliorate work conditions. The following comment by a manager of a local company helps understand the expectations linked to the implementation of functional flexibility:

“With the team-work, instead of having one skill, people will have two, three four skills, which means that if somebody has got much work and somebody else less work they can move over. That should increase production. It should also make a better work environment, where there is not a huge pressure to produce, produce, produce, it’s a much more relaxed way to do it. It’s a way of increasing skills, making a better working environment, reducing a great absenteeism, great problem in the industry, and therefore, increase productivity”.

Despite the positive expectations matured among local actors about the introduction of the team work, several doubts emerge, also on the basis of previous research (Hudson, 1988; Garrahan and Stewart, 1992; Cumbers, 1996), that such experiments, emphasising the flexibility of work, represent a substantial shift towards multi-skilling and new forms of work organisation. It would seem on the contrary the team work satisfies more the need to ensure tasks’ interchangeability and the reduction of time of production rather than a real upskilling of workers which is essential instead to improve the quality of products and to penetrate the niches of the market. Second, the update of capital assets in some local companies offers the case for divergent readings. Whilst for management, new technology has allowed productivity gains and the reduction of production costs through the substitution of labour with capital, according to the workforce and their representatives, the use of technologies has carried with it, on the one hand, an unquestionable intensification of the pace of production coupled with the de-skilling of workers and, on the other, a tighter work control. As indicated in interviews by a local manager and a local unionist:

“There are technologies that allow you to produce an accurate value on how long a job should take, so that you can find out the perfect correspondence between wage and productivity”

But on the other side,

“Technologies are decreasing the skills required to the workers as machines are more and more automatic. The people who are speeding the machines do not need too much. Skill is diminishing in the industry in general, in practice people do not do the job”.

In addition, there is evidence therefore to suggest that the technical advances implemented by Teesside’s clothing companies have been concerned almost exclusively with the production process whilst no example of technological innovation has occurred to improve products.

⁷⁴ As indicates by Hardill (1990), the automation of the sewing phase proves difficult.

Another feature influencing the sociology of work in the industry concerns wages. Low wages were a principal reason for the initial settlement of the industry in the area. Women’s earnings supplemented the household’s income, dominated by men’s wages in heavy industries. During the last two decades, however, this has changed. With the decline of traditional industries on Teesside and the erosion of male employment base, women have increasingly become “breadwinners”, now as low wage earners⁷⁵. The piecework system has traditionally characterised the industry on Teesside. It includes a basic level of pay to which a firm-based package of benefits and bonuses is attached, calculated on individual output. With the introduction of team-work in some sections, one of the largest company of the area has also revised the system of pay. Accordingly, previous bonus earnings have consolidated into a higher basic pay; in return, the team agrees to meet a production target (table 4.11.). Except for this example, the piecework system continues to be the prevailing system of pay.

Table 4.11. Earning comparison of teamworkers with Conventional line operators

Basic or fall back rate		Difference
Teamworking	£117.43	12.80%
Conventional	£104.13	
Gross earnings (Basic plus bonus)		
Teamworking	£142.71	7.70%
Conventional	£132.46	

Source: Clothing and Textile Conference, 1993

The combination of the circumstances above have generated a problem of recruitment in the industry. The traditional source of workers - young, unmarried women and school leavers- is revealing preferences that cannot be matched by the sector and seeks better employment opportunities in the various branches of the service sector⁷⁶. It is for this reason that, in contrast to the past, employers are showing an interest in women re-entering the labour market. As indicated by the manager of a local company in an interview:

⁷⁵ From January 1999 and with the re-negotiation of the clothing contract, the average weekly basic pay for a machinist is around £135; it was around £100 in 1987 (Hardill, 1987).

⁷⁶ Paradoxically, there are cases of unfilled vacancies.

“Usually young people, after sometime spent in the industry, decide that they do not like it. Often you have already provided for their training. That is why there are good chances for older people to be re-absorbed. A good machinist will always find a job. I would rather take in five experienced people than trainees”.

Yet, while recognising the specificity of their role, the common discourse justifies women’s disaffection to work or their frequent turn over as the outcome of a natural inclination towards domestic work rather than the result of a work environment that does not facilitate their activity. As argued by some managers while interviewed:

“The fact that the sector is very much female-based implies that social problems emerge as they are related to women’s role in the family. There are domestic situations that must be kept into consideration”

And also,

“the sector is women-based and it is well-known that they are not work-oriented, they have got a family load, husband and children”.

In contrast to the paternalism of the chemical sector, the clothing industry on Teesside has a long history of conflicting employment relationships affecting industry performance. As remarked by a local manager:

“The point is that this industry has never been employee friendly. There were dictatorial attitudes and then, the way in which the work is arranged, its inflexibility, favours only absenteeism and turnover. This means that you have to re-train people and the productivity goes down. Undoubtedly, a stable workforce will ensure major productive gains”.

The pressure to achieve a consistent daily output, the lack of facilities, such as crèches, and the low levels of wage are the ingredients for the industry to be considered a merely temporary source of earning. High turn over rates have, in turn, the effect to reduce employer investments in training and technology. In line with the institutionalist emphasis, these are the variables that impact the most upon the quality of the production in the sector and, more generally, have great implications for its long-term competitiveness.

4.13. Explaining the current phase of redundancies

4.13.1. Responses to new market conditions

The most relevant transformation occurred in the clothing markets especially in the last two decades has been an increase in competition from low labour cost countries (e.g. the Far East first, North-Africa after and the Eastern Europe countries now). They have witnessed both the growth of their domestic industry and the location of branch plants of Western companies, many of which have switched capacity from the west. The 1973 Multi-Fibre Agreement regulated much of the world trade in textile and clothing through the imposition of quotas and brought in the penetration of Western markets with textile and clothing products from low cost countries. In the period 1990-1996, European imports of clothing from Bangladesh increased more than three times; imports from Romania more than two times and from Poland two times. However, the greatest quotas on the total imports still belong to China (15%), followed by Turkey (10.9) and Hong Kong (7.6%) (table 4.12.).

Table 4.12. Main EU trading partners for clothing and clothing accessories
(Million of ECU)

IMPORTS	1990	1996	Diff. 90\96	% on tot.90	% on tot.96
TOTAL	21290	33563	57.6		
China	2286	5007	119.0	10.7	14.9
Turkey	2356	3655	55.1	11.1	10.9
Hong Kong	2727	2540	-6.9	12.8	7.6
India	1193	1951	63.5	5.6	5.8
Tunisia	974	1893	94.4	4.6	5.6
Morocco	1062	1689	59.0	5.0	5.0
Poland	533	1633	206.4	2.5	4.9
Romania	344	1163	238.1	1.6	3.5
Bangladesh	255	1135	345.1	1.2	3.4
Indonesia	479	1009	110.6	2.2	3.0
Total	12209	21676	77.5	57.3	64.6

Source: Eurostat, 1996

Progressively, global dynamics started to affect clothing industries at the local level. The pressure from international competition centred upon the cost of labour increased the vulnerability of the clothing industry on Teesside and forced its restructuring (table 4.13.).

The loss of jobs and the closure of plants are the outcome of the process of industrial restructuring undertaken by large size companies, such as Dewhirst, Baird and Meridian, which have shifted part of their production to developing countries to exploit cheap labour⁷⁷.

Table 4.13. Textile wage costs
(UK=100)

UK	100
Germany	210
Italy	140
France	140
Portugal	60
Eastern Europe	15-25
Turkey	30
Morocco	20
Far East	7
China	4

Source: Coats Viyella in Financial Times, 16-4-1996

However, although labour constitutes an important component of production costs⁷⁸, company fall in profitability has been seriously compromised neither by the high level of wages nor by the high standard of employment conditions. As indicated by some managers, the industry in the area has instead always suffered from low standards of pay with related implications on employment conditions and relations. Accordingly,

“It’s true that this is a labour intensive industry but the cost of labour becomes a problem when you compare it to that of some developing countries”

and

“This industry is at the bottom of the ladder when it comes to wages and to work conditions”.

The explanation of company profit squeeze, fuelling the adjustment process and redundancies, therefore lies in the system of distribution in which local companies are locked in. As the greatest part of their production is channelled through national retail chains, their role in influencing productive and market choices is significant. Buyer demand for quality products at more competitive prices has forced local companies to reduce labour costs by re-locating

⁷⁷ The Baird group employs 3,000 people in Sri Lanka (The Guardian, 23-10-99). Claremont employs 700 workers in Morocco, while Courtauld Textiles has factories elsewhere in Europe, in the US and Asia-Pacific where it employs roughly 9,000 people (Financial Times, 2-12-98). Dewhirst has plants in Malaysia , Morocco and Indonesia (Financial Times, 10-4-1996).

⁷⁸ According to Hardill (1990), it accounts for just over one quarter of the value of sales.

abroad. It would seem therefore, as suggested by neo-Marxist analyses, that labour-costs savings for larger firms are possible because of their geographical mobility; these companies are unlikely to be trapped into relatively higher costs areas and, at the same time, they are able to take advantage of cheaper conditions of production elsewhere. As underlined by the manager of a large local company in an interview:

“There are investments but it is very low in the UK. Companies are investing in low-level cost markets, in other countries. ... they [retailers] are making a lot of money on a garment. That’s way we have to invest overseas. The best we can do with British factories is to keep them as the size they are, and, at the same time, grow the overseas companies. There will be very few clothing companies that will grow in the UK, rather they will grow overseas. ... We have a big factory in Morocco and we pay 15 pence an hour, while £5 an hour in the UK”.

In addition, the negative impact of international dynamics on employment levels on Teesside has been amplified by the strength of the pound. Employers complain that the strong pound has favoured imports from developing countries. In reality, however, it could be argued that the strong currency has widened margins of profit, since overseas costs of production will be lower. As indicated to me by a local unionist:

“In the [company’s name omitted] case, they [managers] were blaming the strength of the pound, but when I asked them to go back to talk when the interest rates were cut, they answered no. That is because they can source abroad and it’s cheaper”.

What is interesting from the perspective of the role of the wages, employers on Teesside consider the introduction of the minimum wage⁷⁹ to present limited problems for profitability. This is partly because many local companies already pay more than the minimum wage (table 4.14.)⁸⁰.

Table 4.14. Minimum rates and earnings in textile and clothing agreements

Agreement	Increase	Minimum rate or MEL*
Clothing	2.50%	£3.21
Knitting Industries	2.50%	£3.20
Leather Producing	2.80%	£3.40
Textile finishing	3%	£4.00

MEL= Minimum earnings level
Source: IDS report, 1998

⁷⁹ It has been established that the only pay counting towards the minimum wage is the standard pay. All pieceworkers must be paid, whatever the piece rate set and output achieved, no less than the minimum wage on average for the pay reference period (Low pay commission, 1998:56).
⁸⁰ It has been assessed that, in general, the introduction of the minimum wage will increase wage bills by 0.6%. In the clothing sector, wage bills will increase by less than 1% (Low pay commission, 1998:134).

However, the minimum wage may be used by local companies to intensify productivity. As explained by the manager of a local medium size company:

“There is a lot of manoeuvring ... Instead of paying them £3.20 an hour and have an hour break over the day, they will pay £3.60 but the breaks won't be paid. So at the end, they will pay the same amount of time”.

To conclude, the adjustment taking place in the clothing industry of Teesside reflects the response of local large-size companies to a changing economic scenario that is implying the re-consideration of their role within the international division of labour. Nonetheless, it has been the need to safeguard their relationship with retailer chains rather than the issue of the cost of labour to have become the major driver of the process of industrial restructuring.

4.13.2. The institutionally constrained process of industrial restructuring

In a neo-classical world, firms adjust quickly and without major problems to their competitors, mainly by following a cost-saving strategy based on the intensification of technological innovation and the application of the lowest possible wage. In practice, processes of adjustment occur according to different paths, at a slower pace and with different outcomes. I want to show below that wage strategies on Teesside are nested in complex institutional arrangements.

Large companies on Teesside have undertaken one path of restructuring: an overall reduction of the costs through the relocation of production abroad. This has been the outcome of a reactive rather than a pro-active response to a changing external environment. They chose not to upgrade quality or to search for different production and distribution strategies. Only one company is seeking to implement changes in the organisation of work⁸¹. What I therefore contend is that, whilst a process of industrial adjustment was inevitable, the choice to cut costs reflects a particular local industrial culture. This is one based on an entrepreneurial class subordinated to retailers, and on a workforce trapped into a circuit of marginality, both interacting in a vacuum of proactive industry institutions. This seems to have circumscribed company options for industrial adjustment. The following three subsections develop this claim.

⁸¹ The adoption of teamwork to substitute the traditional piecework system is expected to improve production capacity and work conditions, both carrying a better balance between costs and profits.

The clothing entrepreneurs

Historically uneven power relationships have characterised and still characterise the relations between local large producers and external buyers. The nature of such links and their perpetuation has led over the years to a progressive ‘displacement’ of the local entrepreneurial class from the decision-making activity. Although many of Teesside’s large firms have been privileged suppliers, the nature of the relationships has historically favoured buyer power to dictate the conditions at which the relationship could have occurred (e.g. the quality of products, the price of products, the time of delivery, etc.). Therefore, whilst it is undeniable that dependence stimulated local technological upgrading as well their attention to the quality of their production, it also reduced their capacity of elaborating autonomous market strategies, of deciding the type of production and the quality of products or their price. In particular, the initially advantageous position of privileged suppliers has turned to be a constraint, locking companies into a series of reactive options, when some of these buyers have lowered their commitment towards them by ending the so-called ‘buy British’ policy (refer to section 4.12.1). As illustrated by a local trade unionist in an interview:

“Employers are very resistant to change. They really don’t know what to do. ... Well, some of them are simply following what M&S is telling them, they don’t see other ways of managing their business”.

Another example clarifying the type of relationship between producers and retailers is given by the unilateral decision made by M&S to end a 30-year-old relationship of supply with the Baird group. As a consequence, the latter will be obliged either to close some plants or to persuade other big M&S suppliers to buy them⁸². A trade unionist reiterates the point:

“M&S has always had a dominant position in the market. Its relationship with its suppliers is very strict, supplier companies cannot react to their decision, now it has taken the political decision to outsource more work from abroad”

Between buyers and suppliers there is also a strict connection concerning their financial performance. M&S difficulties on the market have an immediate effect upon suppliers’ financial performance. In September 1999, the retail chain issued a profit warning indicating decreasing profits in comparison to the same period the previous year. As a consequence,

⁸² The Guardian, 23-10-1999.

Dewhurst reported an 8% drop in pre-tax profits⁸³. Retailer unwillingness to lose profit has put extreme pressure on domestic suppliers, who are trying to survive either through price cuts or through the overseas production. As clarified in an interview by the local GMB officer:

“M&S made the announcement that its suppliers have to be more competitive and the only way they can do that is to source garments abroad, where the cost of the garment is so dramatically reduced”.

This choice has therefore ended up compromising any type of investment projects on Teesside, as acknowledged by a local manager:

“The major pressure behind companies is the retailer system. They are squeezing so tight margins that they have to go overseas, we cannot make money and invest in the UK”.

On Teesside, the lack of alternative restructuring strategies rather than the mere re-location to low labour costs countries must be, therefore, partly due to the existence of consolidated social relations between local producers and buyers. These relations have affected the culture of innovation as well as wider practices and habits of thought. Indeed, the problem of corporate change is not separated from a company configuration of work practices, of internal relations, of technology, of its market orientation, etc., that is from its culture. In absence of a local leadership able to articulate and implement a business strategy as well to promote its modification, the transformation path of Teesside clothing companies has been extremely prone to buyer requests.

The workforce

Having emerged as a non-competitive industry besides the Teesside's traditional core sectors, the clothing industry has never achieved a central role in the economy of the area. The industry retains a negative connotation in the labour market because of its low wages and harsh work conditions. The industry attracts peripheral segments of the local workforce who offer their labour at sub-optimal conditions. Two main problems have emerged. First, women's participation appears to be discontinuous: exits from and entries in the workplace are frequent and related to specific phases of their life (marriage, children, income, breadwinner role). Second, because of low levels of wage and hard working conditions, cases of absenteeism and disaffection to work are frequent in the industry. It follows that the production process is often prejudiced and its organisation is difficult. Partly to solve this

⁸³ The Guardian, 23-10-1999; The Observer, 13-9-1998.

problem one important company of the area has undertaken a programme aiming to substitute individual piece-work with team-work. By reducing the pressure on individual workers, this system is supposed to improve worker performance and, in general, attitudes towards work. As explained by a shop steward in an interview:

“With the team-work, the work is done by a group of 8-10 people. In this way, you avoid the repetitive job ... you get the change. You feel you’ve got more control on the quality, more input in what it’s done. Decision-making, the control of quality, everything is up to the team. Team work improves time keeping, people appreciate the different atmosphere”.

Workers’ negative attitudes towards work reflect the existence of structural problems within the industry. These are acknowledged by only few local employers, although evident to workers and people working in local organisations. They refer primarily to the industry’s low investment in training provision and, secondarily, to its reluctance to improve work conditions. Thus, according to the regional training officer of the sectoral union:

“Training has never been a serious theme on the agenda of this sector. There is a tradition of not training anybody. You learn your expertise by being at the workplace”

This practice is confirmed by some clothing workers participating to a focus group:

“I was moved to another line but I didn’t get any training. It’s a new job and nobody is around to help. I’m figuring it out by myself, just watching another girl”.

No less relevant in explaining the workforce’s attitude is the type of organisation of work. As indicated by a local manager:

“An employer needs to understand his workforce necessities. This is a female based industry. You need to think to work arrangements that facilitate women’s problemsyou know, the house and the rest of it. If you offer better conditions, for example the existence of crèches, then it’s the company that gains the most, reducing absenteeism and turn over”

Moreover, women in the clothing industry have not been acknowledged their new role as breadwinners. According to a worker interviewed:

“The industry is classed as one of those industries that was there as an extra, but now it’s not, but nobody has ever recognised this because it’s a women industry. ... Our industry is a very hard working industry but we have never been secure; this industry is highly insecure, you take a job from one year to another”.

The clothing workforce is trapped in a vicious circle, where the lack of commitment is reproduced by companies that, paradoxically, given the labour intensive nature of the industry, have for long time neglected the centrality of the workforce. Nonetheless, this downward spiral affecting the employment relations in the industry is now seriously impacting on the workforce. Increasingly, employer discourses tend to stress how the process of de-localisation to low costs countries represents a solution to such problems. Thus, for example:

“When we go abroad, we find grants given by the Government, technical schools, low cost of labour and in general a good atmosphere. Workers are keen to work for Western companies. They don’t raise problems as here”

In case of restructuring, a simple rule agreed with the Unions, ‘last in – first out’, is applied: this implies that the workers most recently employed will be the first to leave the company. From company perspective, this system has a twofold rationale. On the one hand, it provides a good safeguard against industrial disputes as the criterion on which the decision is based is extremely clear. Second, the lay-off of the workers most recent employed translates into consistent gains for the company as the redundancy payment is linked to worker permanence at work. In practice, however, this system does not satisfy the employers. Nor is it appreciated by workers. Both contest the neutrality of the system in relation to the skills of the workforce and its commitment to work. Thus, from managers’ perspective:

“It’s a shame that people aren’t chosen on the basis of their performance”

Indeed,

“The main reason to apply it is that you can end up in industrial tribunals ... and it’s also cheaper for the company. But that is not a good system”

and from the workers’ perspective:

“We were made redundant because we were the last on the list. This system is not good. There are people who are always off, ... for no reason they take days off. Good workers should stay ... redundancies should be decided on the basis of performance” (comments during a focus group).

Yet, the contention here is that the process of restructuring in the Teesside’s clothing industry has ended up creating a pool of redundant workers who were not necessarily the ones influencing company efficiency/inefficiency. Through the application of an effective procedure for its effects on the wage bill, the industry is moving away some members of its workforce regardless of their skills, their experience or their commitment to work. Moreover,

the 'last in – first out' system is leading to the penalisation of specific categories of the workforce such as young people, women who are re-entering in the labour market and, more in general, workers whose employment history has been characterised, for various reasons, by a high turn over. These workers will constitute a fluctuating segment of the workforce in the sense that their entry in and exit from the labour market will be increasingly linked to the expansionary or contraction phases of the industry itself. Therefore, their causalisation is going to be reproduced according to a vicious circle.

The formal institutional context

In addition to the two dimensions explored above, an important role in explaining the current phase of change is played by the vacuum of sectoral organisations and the more general marginality of the industry within local economic programmes.

The clothing sector is an archipelago of productive units detached from each other. To the pressure exercised by the internationalisation of clothing trade, not only have the different segments of the industry reacted differently but the answers provided have reflected the climate of competition existing among similar companies. Medium-size companies have sought to find niches in the market or to widen the distributive channels, while many small companies have disappeared because of the lack of adequate financial and managerial capacities. Much more evident has been the impact of competition upon inter-firms relations in the segment of large-size firms. For them, international competition has had a profound displacement effect as their integration within a particular distributive chain seemed to secure their productive existence from external pressures. The business choice made by retail chains to progressively reduce the quantity of production bought from UK manufactures, while exploiting the advantage of overseas production, has opened a competition among local companies which, engaged in maintaining unaltered their level of supply, have excluded any form of horizontal co-operation. As admitted by the personnel manager of a local company in an interview:

“To be honest, I don’t know anything about the others. Yes, I don’t know who my competitors are. I know that there is another company at the corner of this road, but that’s it”.

The process of competition among companies is well-described by the local GMB officer:

“Because Dewhirst is going abroad, that will put the pressure on Bairdwear because they are suppliers to the same company. It’s a knock on effect. Once a manufacture starts doing it, to be competitive with that manufacture they equally go abroad”.

Thus, while the reaction of a company to a changing economic scenario depends on its unique capabilities and its own long-term business strategy, the lack of co-operation among companies as on Teesside has amplified problems that could have been dealt with collectively. The most appropriate example to illustrate this point concerns training. This is a fundamental and expensive phase for every company, regardless of size. Workers to be hired are usually provided with a six-week period of training during which they learn their expertise at the company expenses. It was with the idea to reduce the costs sustained by individual company⁸⁴ (many small and medium companies had progressively reduced their investments on training over the years also because they benefited from the turn-over of workers from larger companies) and to ameliorate the quality of new entrants in the industry that an attempt to start a technical school was made roughly four years ago. Disagreements on the funding led soon to the sunset of the initiative. Contrary to the inter-firm initiatives developed by chemical companies to promote and to use to advantage the chemical capital of the area, clothing companies on Teesside have not been able to promote similar co-operative behaviour. Lack of mutual trust, of management planning, of financial viability, of capacity/willingness to promote activities concerning wider interests than the ones pursued by the single company, have prevailed and have ended up worsening competitive capacity as they have internalised some costs that initiatives such as the technical school could have externalised.

The analysis of the local institutional context does not offer a more positive picture. The industry is not central to the economy of the area and finds a limited role in the agenda of local authorities, of the local TEC and of local advisory organisations such as the TVJSU. This implies that the economic action occurs within an institutional vacuum and the economic actors (companies and workers) are exposed to any type of external influence. The current phase of economic instability has especially manifested the isolation facing local companies. Moreover, in a situation in which companies are constrained by the knowledge of a limited amount of information and by the limited awareness of the variety of options of adjustment, changes can neither been anticipated nor turned positively. The only initiative that has been set up, although at regional level, with the precise aim to improve company strategic

⁸⁴ Frequently occurs that during or just after the period of training, some of the trainees decide not to accept the job.

understanding and their competitiveness has been implemented by the central Government. A task force headed by the director of the Government's office for the North-East, according to what reported by the press (The Northern Echo, 1999), will have a role of support for companies. Its economic-policy address has already been defined. Given that the local clothing industry will never be able to compete with low-cost countries, it is expected that consistent steps will be undertaken to move towards higher quality products and materials⁸⁵.

4.14. Conclusions

The process of restructuring of the clothing sector on Teesside has suffered from an acceleration during the last two years. Whilst it is not possible to foresee how long the process of restructuring will last, it will surely result in a substantial downsizing of the industry and in a qualitative change in its productive specialisation. It is a common belief among local employers and economic observers that companies are going to specialise in the so-called 'quick response or turnaround'. This implies that the bulk of production will be manufactured in low-costs countries⁸⁶, while local plants will supply the market only with specific products or when specific circumstances occur, for instance, when a particular ply, or colour, or model runs out of the market.

It has been shown that processes of redundancy and industrial restructuring are shaped by the production relations in which local companies are bound. Company profit squeeze has been determined rather than by the impact of the cost of labour by the alteration of the buyer-producer relation which has remarkably increased producers cost-sensitiveness. The restructuring process has taken the form of re-location to low-labour cost countries with job losses on Teesside. I have also shown that the choice concerning the type of industrial adjustment to be undertaken has been also heavily constrained by the institutional framework that has historically forged the economic action in the area. Such an adjustment responds neither to a mechanical process nor to an ensemble of individual preferences. It is rather embedded in the nature of the relationships between local capital and labour, where the former suffers from forms of displacement, caused by the nature of its link with the distribution system, and the latter embodies the culture of a peripheral workforce. In addition, the absence of formal sectoral organisations has prevented an alternative process of

⁸⁵ The Northern Echo, 19-2-1999.

restructuring, based on qualitative upgrading. It can be argued therefore that whereas the current restructuring phase is expected to redefine the industry's profile and allow a certain recovery in company profits, perplexities remain about the industry's long term capacity to achieve adequate levels of efficiency. Indeed, the process of adjustment undertaken does not leave room for investment in design technologies and in human resources on Teesside, as it would seem that the implementation of changes in the work organisation responds precisely to the same logic of cost reduction.

4.15. General conclusions

The central objective of this chapter has been to provide an understanding of the causes of employment and industrial change in the chemicals and clothing industries of Teesside. The 1990s have represented a period of major transformation for both of them. The chemicals industry, identified with its major firm, ICI, has for long time epitomised the coincidence of high standards of employment relationships and good economic performance. The creation and perpetuation of an expensive model of employment relations, aiming to efface conflicts and to socialise the identity of workers and company's interests, was made possible by the demand-led growth and the technological leadership which, until the first half of the 1970s, allowed the company to maintain a position of prominence in the chemicals market. It is at the beginning of the 1980s and, more acutely, during the decade, that the downturn of the market for heavy chemicals, the entrance of new producers in the international scene and the reduction of technological advantages led ICI to start a wide process of economic restructuring which has implied job loss. Redundancies have resulted from the business repositioning of the company in the 'light' segments of the chemicals production and also from a profound restructuring of the employment relationship that had characterised the company since its foundation. The culture of the harmonisation of capital and labour interests has been substituted by the one emphasising the prevalence of corporate objectives; at the same time, work practices, such as over-time, were definitely dismissed. The labour market of the whole sector has consequently undergone a restructuring affecting downward labour prerogatives. The chemicals workforce has been parted into a core and a peripheral segment. Good employment relations are offered by a limited number of chemical companies to a nucleus of workers, while peripheral workers have seen deteriorated the conditions at which

⁸⁶ Dewhirst is planning to produce 50% of its production abroad by 2000 and 70% by 2002, from 27% in 1995 (Northern Echo, 8-9-1998).

they can offer their labour. For both segments however the reproduction of labour occurs according to flexible conditions that assume a different meaning within employer and worker perspective.

In the clothing industry, it has been argued that the prevailing restructuring process undertaken by local companies, consisting of the re-location of their production to low labour cost countries with the aim to exploit differentials in the cost of labour and leading to job losses at local level, is understandable by considering the historically uneven nature of the relationships between local producers and retailers in favour of the latter but also the vulnerability of the local clothing workforce. The relationship of dependence, which initially gave local companies an advantageous position as they were reserved the status of privileged suppliers, turned to be a relevant constraint when retailers lowered their commitment towards them. Displaced from a real and autonomous decision-making process which, in the long term, has impoverished local managerial capacities and in absence of any type of co-operative behaviour aiming to promote inter-firms initiatives, local entrepreneurs have been heavily constrained in their choice about the process of restructuring.

During the last decade, therefore, many chemical and clothing workers have lost their jobs. However, redundancies in the two sectors have occurred in a different way. First, chemical companies have carefully selected the workers to make redundant. It dealt with people who were bearers of social and cultural values that have been deemed incompatible with the ones informing new corporate organisations and their employment relationships. In the clothing industry, the application of an effective procedure for its effects on the company wage bill is believed to have moved away members of the workforce who were not necessarily the ones affecting company performance. Second, in its process of re-organisation, ICI has sought not to betray, at least formally, the traditional commitment towards its workers and the wider community of Teesside. Through the re-deployment of the workers in excess and the sale of the businesses to be discontinued to chemical companies willing to invest in the area, ICI has tried to respect the old pact that had defined its economic and social role in the area. The process of restructuring in the clothing industry is instead leading to a substantial downsizing of the sector in terms of the number of workers engaged in clothing activities and of productive units. Both trends have occurred in a general atmosphere of resignation and inevitability.

The next chapter explores redundancies in the chemicals and clothing industries of Brindisi. Comparative aspects emerge whose implications for an institutionalist approach are taken up in chapter six.

Chapter 5 - Brindisi: Between corporatism and reciprocity

5.1. Introduction

The 1990s represent a decade of dramatic transformation for the economy and society of Southern Italy. The macro-economic context changes following the modification of State intervention in economy and the country's participation to the European project of economic and monetary integration. The decade also witnesses the sunset of a political class that had linked its existence to the functioning of a macro-economic pact between the North and the South. Such changes have negatively affected the labour market situation and different paths of restructuring have occurred in different sectors and localities.

This chapter focuses on redundancies in the chemical and clothing industries of the Brindisi area. My argument is that, in both sectors, local companies have responded to the changing macro-economic context through a variety of restructuring paths. By the same token, they have displayed non-isomorphic employment adjustment strategies. Some restructuring processes have centred upon the reduction of the cost of labour through job losses, some have involved job loss without wage pressures and, finally, others have involved no job losses. This picture contrasts with the dominant academic view on redundancies which assumes a convergence of restructuring practices and the uniformity of their determinants (e.g. Bruno and Sachs, 1985; OECD, 1994; Layard et al, 1994).

The chapter is divided into three parts. The first part summarises the transformations of Brindisi society and economy from the post-war period. I argue that the process of industrialisation of the 1960s and the underlying economic and social values developed alongside, rather than substitute, traditional agrarian society, and that both are important in understanding of local restructuring options. Part two focuses on the causes of redundancies in the chemical sector. It stresses the role of labour saving effects of process innovations, and dis-investment. I maintain also that a deeper, silent, and socially legitimated process of restructuring is occurring in the area which, without leading to net job losses, is impacting both on company costs of labour and the local industrial culture. Part three examines redundancies in the clothing sector which are taking place in two distinct segments of the

industry. By accounting for their causes, it contends that different choices of adjustment seem to depend on the existence of diverse local industrial cultures.

Part 1 – Brindisi: an emblem of the contradictions of the South

5.2. Economy and society in Brindisi from the post-war period until the 1960s

The economic features of Brindisi (figures 5.1. and 5.2.) in the post-war period were similar to those in many Southern Italian areas. It was dominated by agriculture which in 1951 accounted for 70% of the local active population, while industry and services shared almost equally the remaining 30% (Il Tempo, 06-09-1962). Income from agriculture represented 55% of the gross output (ibid.). The Agrarian Reform of the 1950s which should have modernised the primary sector, by expropriating big *latifondi* and distributing land to peasants, as well alleviated the severe rate of unemployment in the area did not manage to achieve its goals. The consequent fragmentation of ownership⁸⁷ as well the inefficient rationalisation of the agrarian space prevented the development of a modern agricultural system in the province. The new owners had limited capital which reduced mechanisation and investment. Then, the absence of a cash crop culture held back capitalist transformation. It is for these reasons that small owners were often obliged to sell their labour as daily workers in bigger properties. Under-employment for men and women was frequent.

Brindisi's labour market in this phase was clearly dominated by the traits of an agrarian society and characterised by an overwhelming presence of subordinated workers in agriculture representing 90% of employees (Cecafosso, 1979). Women worked on the family farm while constituting the bulk of the daily workers during the phases of peak production. The feminisation of agriculture was a widespread phenomenon. This was the result of male out-migration and also of men's search for other sources of income (Coppola, 1977). However, women's work was considered secondary, less qualified and, consequently, less well paid.

⁸⁷ As indicated by Cecafosso, two-thirds of them had an average dimension below one hectare (1979).

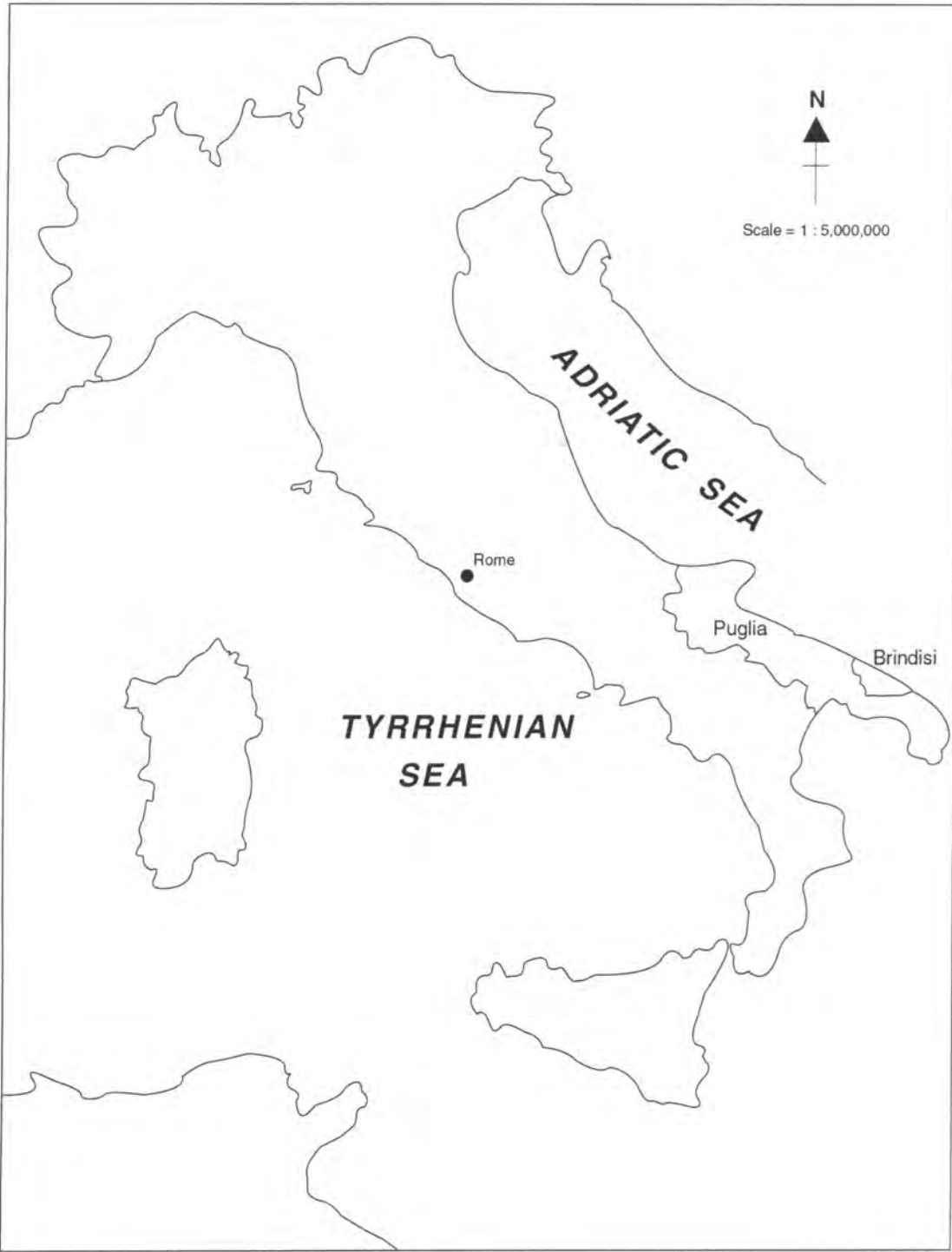


Figure 5.1: Brindisi And The Puglia Region In Italy

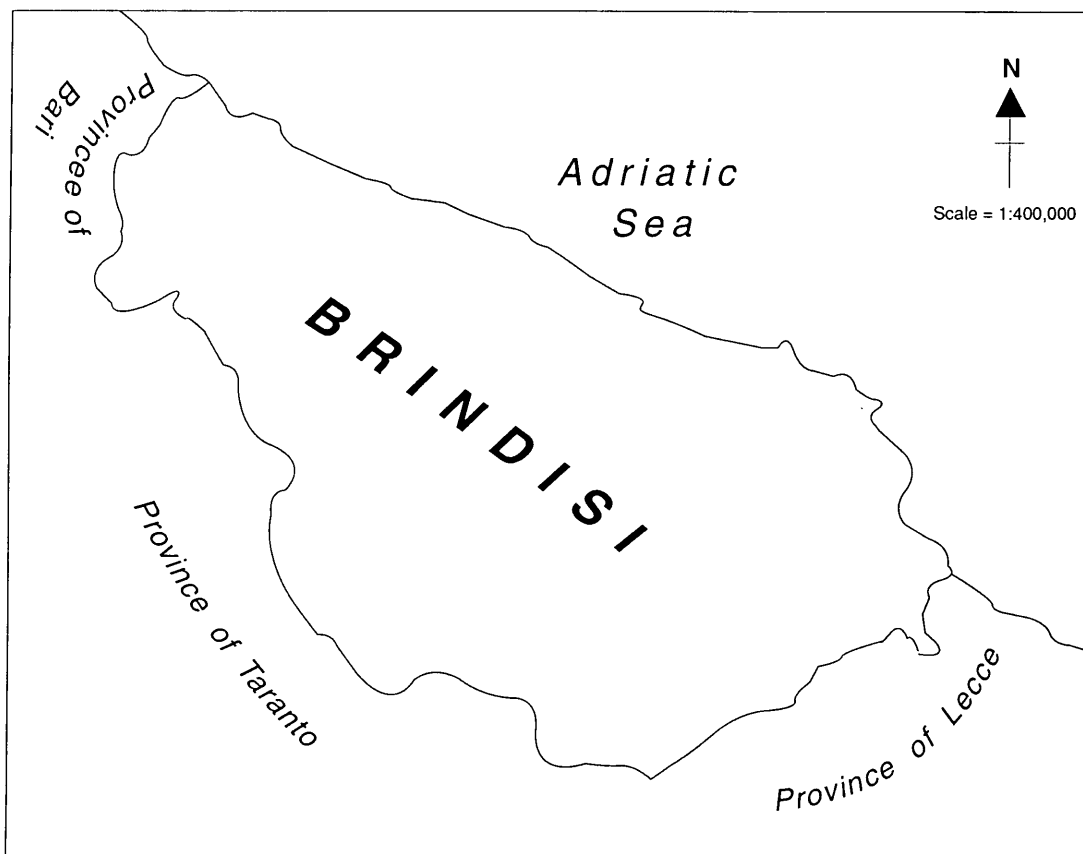


Figure 5.2: The Province of Brindisi

The industrial activities existing in the area operated into traditional sectors such as food and clothing. Their artisanal nature impinged upon their technological endowment as well upon their capacity to distribute the output. Development opportunities were therefore deeply constrained (Cecafosso, 1979).

From a social perspective, nuclear families constituted the core of Brindisi's society. However kinship networks constituted a web of support that had an important strategic role for employment opportunities and the share of social responsibilities. For example, labour was accompanied with wider social commitments: with labour power came the whole worker, with his/her familiar position and his/her web of personal and affective relations. Rules of reciprocity and traditional social codes assumed therefore an important function in the economic system. For instance, the recruitment of workers in the main squares of villages as well the definition of wages was left to an informal face-to-face bargaining. Similarly, as Sidney Tarrow writes (1979), clientelistic relations existed between local notables and landlords and local families, whereby the former maintained power over the latter given their monopoly over resources (e.g. land) and the provision of subsistence. Local institutional life presented no intermediate institutions or organisations.

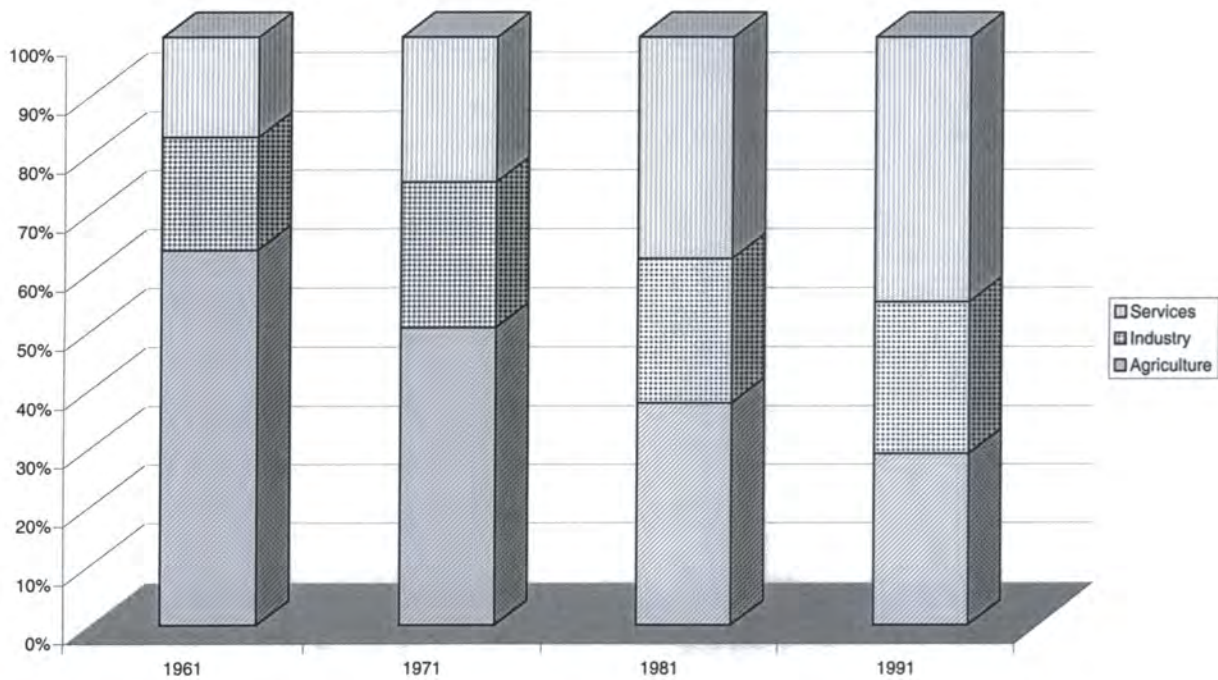
5.3. Growth without development: Brindisi's industrialisation from the 1960s to the mid-1980s

At the beginning of the 1960s, therefore, Brindisi was a peasant-based society. However, a period of great change was underway which would modify its trajectory of development. Like other Southern areas, Brindisi became a target of the new phase of State intervention in the South which shifted to an active policy of industrialisation through growth poles. This is the period of the 'great transformation', of 'the capitalist integration' or 'modernisation' (Martinelli, 1998): the period in which an archaic and agrarian society was transformed into a modern, partially industrialised and mass consumption society (Triglia, 1992). This was to be achieved through exogenous industrial investment⁸⁸.

⁸⁸ Martinelli (1998) identifies two sub-periods in the industrialisation phase of the 1960s and early 1970s. In the first decade, it was mostly state-controlled industrial groups that used the incentives and invested in the south. A second wave of investments in the area was implemented by private northern companies. In both cases, companies benefited from the extraordinary funds managed by the Cassa per il Mezzogiorno, a special State agency for the development of the south.

Between 1950-1973, the Puglia region received 1,257.8 billion Lire of investment with the Taranto province absorbing the largest amount (almost 60%) through its new State-owned steel industry. The Brindisi province received funds for 170.6 billion Lire (almost 14% of the total), 93% of which benefited the chemical sector (Mele, 1975). Steel (mainly in Taranto) and chemicals (mainly in Brindisi) absorbed roughly 4/5 of all resources that went to the region (ibid.). A huge petrochemical complex was built close to Brindisi, which was destined to re-shape the economy and society of the area. The 1971 census gives the full extent of the change: the percentage of the active population involved in the primary sector declined from 64.9% in 1961 to 50.6% in 1971, industry grew from 19.2% to almost 25% (figure 5.3.) and came to be dominated by chemicals production. In 1971, almost 4500 workers were employed in this sector, representing more than 24% of the total manufacturing workforce. Other industries, including the clothing, were obscured by the impact of these large external investments and were confined to a marginal role in the local economy (Capriati, 1995). The following decades witnessed instead the decline of agriculture in favour of the service sector,

Figure 5.3. Brindisi's active population by sectors



while industry maintained a fairly constant trend.

Source: Istat

No less relevant were the implications of the industrialisation process for Brindisi society. The exploitation of large reserves of 'green labour' in the industry transformed the local

society from one centred upon a system of agricultural relations to one in which the status was given by the blue overall of the industry (Provincia di Brindisi, 1999). The power of certain classes such as landowners declined as well the prestige of some occupations in the public sector and some autonomous professions, while, the process of proletarianisation assumed a positive connotation. The arrival of good work contracts, the stability of employment and its protection through the Cassa Integrazione Guadagni (CIG)⁸⁹ were the factors that contributed to raising the status of industrial work. A sociologist interviewed⁹⁰ offers a vivid picture of the radical transformation that Brindisi's society was undergoing:

“Peasants became industry's workers: this implied for instance to work 365 days per year whereas the work in agriculture was seasonal. Workers started to go to work in factories where a rational and coherent organisation of work existed, where there was a sequence in which everybody is allocated a task and where it is easy to miss the sense of the whole; it was not as in the lands where you saw the blossom of the vineyard and then the harvest. There were people who talked to you using the ‘Lei’⁹¹, that had completely different styles of life, etc.”.

It would be misleading however to believe that the settlement of the chemicals industry in Brindisi brought a formalisation of social relations as well a formalisation of labour market rules. First, the management and implementation of the programme of State intervention soon became a powerful means through which the local political class, especially government Parties⁹², established a clientelistic system of rewards. Financial resources and individual protection, when the crisis hit the industry, went only to individuals and organisations strictly linked to those Parties. The programme of industrialisation allowed also Parties to colonise social life. By assuming a regulative function in the social and economic life, they substituted public institutions and their own particular interests for collective ones. In this way, they ended up stifling other forms of collective organisation, especially the unions, which became consensus organisations (Donolo et al., 1978).

Second, the process of industrialisation led to the formation of a partially proletarianised working class. It could be argued that the emerging industrial society was based on the complementarity between formal regulation and traditional associative relations (Mingione, 1991; 1993). For example, in addition to working in the petrochemical plant and, therefore,

⁸⁹ CIG (Short-Time Earnings Compensation) supplements the wage of workers temporarily laid off or working less than full hours. It has represented the most important means of income protection foreseen by the Italian legislation for restructuring crises.

⁹⁰ Brindisi, 7th of July 1999.

⁹¹ In the Italian language this is the most formal way to address a person.

embedded into formal sets of relations and values (primarily technical, e.g. hierarchical relations with supervisors and managers but also the belonging to trade unions), many workers continued to cultivate their properties, which nourished traditional agrarian informal relations (e.g. informal relations with temporary workers, with family helpers but also with local political intermediaries and notables). This became important during the restructuring phase of the mid-1980s when hundreds of workers were made redundant. While I do not wish to underestimate the trauma of job loss and the reduction of income, the impact was attenuated by the fact that many local workers returned to agriculture to supplement their income and rescue some social recognition.

This peculiar constitution of social relations, hinging upon the co-existence of ascriptive and prescriptive rules, worked its way into the employment relation of the newly settled Montedison petrochemical plant and blocked for long time the corporatist management of employment relations⁹³. As discussed in part 2, managers, selected according to their political affiliation, and political leaders became increasingly close in a management of public resources through clientelistic criteria rather than criteria of economic efficiency. Such a management of public companies was bound to have serious implications in the long-term. Yet, although profits of the State industry companies IRI and ENI⁹⁴ were negative at the beginning of the 1970s, the sustainability of the model was questioned only in the first half of the 1980s.

5.4. From dependent development to non-development: recent dynamics in local society and economy

At the beginning of the 1980s, Brindisi was hit by the crisis of the chemicals industry. In addition to the negative impact of the oil shock and the slow down of demand at international level, the main plant also suffered from an unexpected event. The main ethylene cracker blew up in 1977 and marked the start of a restructuring process in which the return to profitability was to be achieved through the modification of the corporate culture, with a restoration of

⁹² The presence of the chemical industry in Brindisi is widely recognised to be due to the political action of Italo Giulio Caiati, an important member of the Democrazia Cristiana (DC-Christian Democrat Party) belonging to the political group led by Andreotti, aiming to establish a web of political consensus around him.

⁹³ Corporatism is “an institutional arrangement for linking the associationally organised interests of civil society with the decisional structures of the State” (Schmitter 1979 quoted in Perrucci, 1994:491).

⁹⁴ Istituto per la Ricostruzione Industriale (IRI) and Ente Nazionale Idrocarburi (ENI) controlled and managed with public money numerous companies that entered in the system of ‘Partecipazioni Statali’ (PP.SS.) The story of PP.SS. ends at the beginning of the 1990s due to the process of privatisation.

'healthier' corporatist dynamics, and through large-scale dismissals. Shaken by the crisis of the petrochemical plant, the area seemed to suddenly realise that the ambition that it had cultivated for long-lasting growth was vanishing.

The model of industrialisation was flawed. The vertically integrated and capital intensive plant had produced limited multiplier effects⁹⁵. Whilst it is undeniable that the chemicals industry generated hundreds of direct and indirect jobs of good quality, it substantially failed to act as a growth pole (Cerpem, 1990; Ecotec, 1993). The branch plant nature of such companies, vertically integrated with activities located elsewhere in the country, did not favour the development of local firms. Also the initiative launched by Montedison, in coincidence with the restructuring phase of 1978-1983, to favour the start-up of entrepreneurial activities among redundant workers had scant results. With the redundancy agreement, Montedison committed itself to offer a series of facilities (services, lands, technological and research assistance, etc.) to the redundant workers who were willing to start autonomous business activities. Isomar and Siprosuole were the only two companies that settled within the petrochemical plant, by exploiting the local production of Methl Diphenyl Di-isocyanate (MDI) (Cerpem, 1990). Viesti (1996) reports that 130 new jobs were created and they were not all taken by people on CIG. The lay off of 1700 workers from the petrochemical plant between 1977 and 1983 led to the creation of a pool of middle aged and semi-skilled male workers in the local labour market; many of them, expelled prematurely by the industry, were unable to find a job and ended up enlarging the number of people involved in the local informal economy.

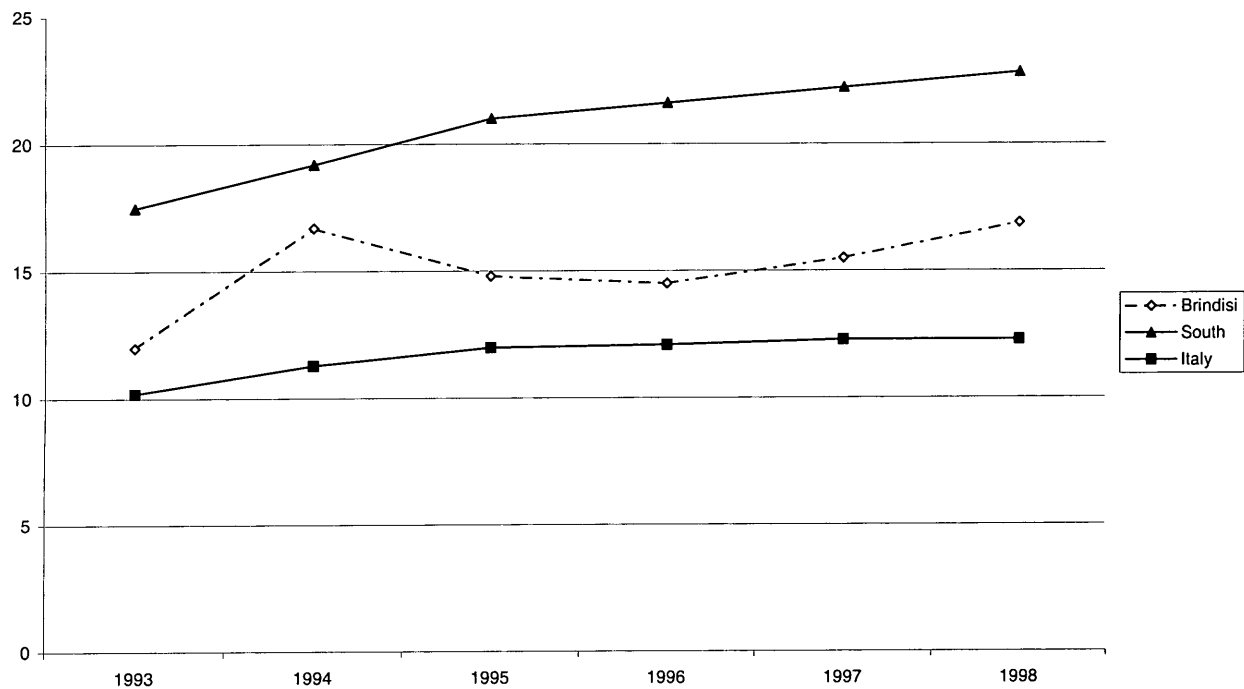
With the end of large-scale State industrial intervention in the South, formally sanctioned with law 488 in 1992, and of the conception of public companies as the engines of development, the primary objective of State intervention has been the maintenance of personal income and consumption. This has been pursued through public works such as the 'Brindisi-Sud' electric power station as well as through income support schemes (Provincia di Brindisi, 1999). In other words, the local productive fabric was unable to absorb the shock associated with the crisis of the model of externally-led growth and promote alternative forms of development. Between 1991 and 1996, the number of employees in the manufacturing sector of the province decreased by almost 15%, from 17,427 to 14,864 (Istat, 1996). An attempt to slow down these downward trends and activate local resources has been made with the Brindisi's

⁹⁵ The disappointment has been greater also because the multiplier effects of such investments were supposed to have spontaneous and unproblematic outcomes.

Territorial Pact, one of the first in Italy. The local social partners (the organisation of employers, the three trade unions, the local authorities, the chamber of commerce, some research centres, etc.) have come together to identify the development and employment strategies compatible with local resources and needs. On the basis of the priorities selected, public funds have been requested⁹⁶. Nonetheless, even in this case, the innovative character of the initiative has been dampened by disagreements between the organisations that promoted it, and the development agency in charge to select the projects destined to benefit from financial support. This again manifests the weakness of the local social context to express economic and social interests untied from political and particularist logic.

Unemployment rate has an upward trend since 1996 and reached almost 17% in 1998 (figure 5.4.)⁹⁷. The increase is the outcome of two phenomena: first, an increasing number of people are looking for a job and, second, forms of under-employment, such as seasonal work, have started to decrease.

Figure 5.4. Unemployment trends by geographical area during the 1990s



Source: Istat

⁹⁶ This approach reverses the logic underlying the previous regional policy in the sense that it deals with a 'bottom-up' approach, favouring the activation of local resources. In Brindisi, three areas of intervention have been identified by the pact: initiatives to promote business activities, interventions to improve and support such initiatives and interventions to improve human resources.

In relation to the employment dynamics, the analysis of the data on active population shows that a declining number of people are involved into the primary sector whose consistence is progressively reducing in favour especially of the service sector (compare figure 5.3. and table 5.1.). Industrial employment has a positive trend against the one for the South and for Italy as a whole. This may be related to the good performance of sectors such as food transformation (Provincia di Brindisi, 1999).

Table 5.1. Employment change in the period 1993-1998
(thousands)

	Brindisi	South	Italy
Agriculture	-6	-179	-337
Industry	1	-153	-258
Service	1	37	318
Total	-4	-294	-269
	(-3.1%)	(-4.9%)	(-1.3%)

Source: Istat

The lasting importance of the primary sector, which has favoured also the emergence of some interesting industrial activities, in the Brindisi economy is however revealed by data on the value of production of the single sectors (table 5.2.). The latest available data refer to 1996 and indicate that almost 11% of the value of the provincial production is determined by agriculture, at the regional level it is 7.6.%. The service sector is the largest, while the manufacturing sector now accounts for 17% of the output compared to almost 22% in the region.

Table 5.2. Composition of the added value by sectors, 1996

	Brindisi	Puglia
Agriculture	10.8	7.6
Industry	17.1	21.6
Services	72.1	70.8

Source: Istituto Tagliacarne

⁹⁷ The change in the ISTAT classification of labour forces makes it difficult to compare with previous years.

Employment in industry revolves around two sectors of external ownership (chemicals and aeronautics, geographically located near the city) and around the food transformation and the clothing industries (scattered across the province) both of endogenous ownership (table 5.3.).

Table 5.3. Employment in the manufacturing industry, 1996

	Employees	%
Food industries	2029	13.7
Clothing and textile	2570	17.3
Leather industries	164	1.1
Wood industries and wooden products	563	3.8
Paper, printing and publishing	282	1.9
Coke and petroleum products	51	0.3
Chemicals industries	1992	13.4
Plastic materials	535	3.6
Mining and quarrying	618	4.2
Metal manufacture	2571	17.3
Mechanical engineering	734	4.9
Electrical engineering	268	2.5
Transport and communication	1857	12.5
Other industries	530	3.6
Total	14864	100

Source: Provincia di Brindisi, 1999

A recent report by the Province of Brindisi suggests however that, in connection to the trends indicated above, Brindisi’s economy is increasingly being characterised by self-employment: the percentage of employees in fact decreased from 73.5% of 1993 to 69,4% of 1996 (Provincia di Brindisi, 1999). According to this study, the self-employed consist of a minority of ‘entrepreneurs by choice’ and majority of petty traders who have gone into business because of the absence of other alternatives.

5.5. Conclusions

The previous sections have presented an analysis of the changes that have concerned Brindisi’s economy and society during the last forty years. The area benefited from massive public investments but it ended up symbolising the flaws and contradictions connected to the regional policy implemented from the 1960s to the 1990s by the Italian State in the South of the country. It has been the contention of this part of the chapter that the process of forced

industrialisation with the settlement of the chemical industry did not produce a complete displacement effect on the traditional agrarian society of the area. Rules of reciprocity were not substituted by neutral and prescriptive market rules but co-determined an institutional configuration whose features influenced the processes of restructuring of the following years. Negotiated processes, involving the trade unions and local authorities, aiming to find the least traumatic solutions in terms of job loss, have shaped the restructuring paths of the chemicals sector during the 1990s. In addition, these have responded to criteria of efficiency as well of social protection. In the clothing sector, instead, where informal relations and precarious work have always been prevalent, employment relations, from the hiring of personnel to its dismissal, have responded to informal values and have been governed by informal bargaining.

Part 2- The anatomy of work re-organisation in the chemicals industry

5.6. Introduction

The aim of this part of the chapter is to provide an explanation of redundancies in Brindisi's chemicals industry. Until the mid-1980s, the sector, represented almost exclusively by the Montedison petrochemical plant⁹⁸, constituted a major source of employment opportunities and income stability for the local population. After the crisis and downsizing of the mid-1980s, the 1990s mark the decade in which the local chemical industry undertakes substantial steps to regain efficiency. The central argument that I wish to advance is that, besides processes of restructuring determined by process innovations leading to job losses, Brindisi's chemical industry has undertaken a path to profitability revolving around the rise in labour productivity, without job loss of significance. Cost-effectiveness is being achieved through an inter-generational change in workforce composition which will have an impact on company productivity and on costs. I also argue that this strategy is being implemented within a corporatist system of management of employment relations involving negotiation between employers and trade unions. A new social pact, expressed in the wage relation, is emerging between companies, workers and unions, involving a trade-off between the maintenance of jobs in the area and changes in the employment relation. These actors are therefore participating together to shape the profile of the local workforce and the industrial unemployed. My interpretation challenges mainstream positions on industrial unemployment

⁹⁸ The other relevant settlements were the pharmaceutical company, Lepetit, and the Mobil Plastics Europe plant.

and restructuring as I show that company search for profitability has not been based on wage cuts or forced labour acquiescence.

Section 5.7. provides the historical background to the chemicals industry in Brindisi. The reconstruction of these aspects relies heavily upon the direct knowledge of local informants given the scarcity of secondary sources and the lack of any systematic research on them. Section 5.8. discusses the circumstances that contributed to the massive period of redundancies of the mid-1980s. The restructuring trends currently affecting the industry are the focus of section 5.9. It shows that redundancies in the industry are being determined by the continuous search for efficiency gains achieved through process innovations and work re-organisation. A case of dis-investment, due primarily to negative market conditions, explains the closure of a plant with related mass dismissal. This section also provides evidence to suggest that a parallel process of restructuring, implying the re-composition of company workforce and no job losses, is taking place in the sector.

5.7. Industrial dynamics and local corporate culture, 1960-1980

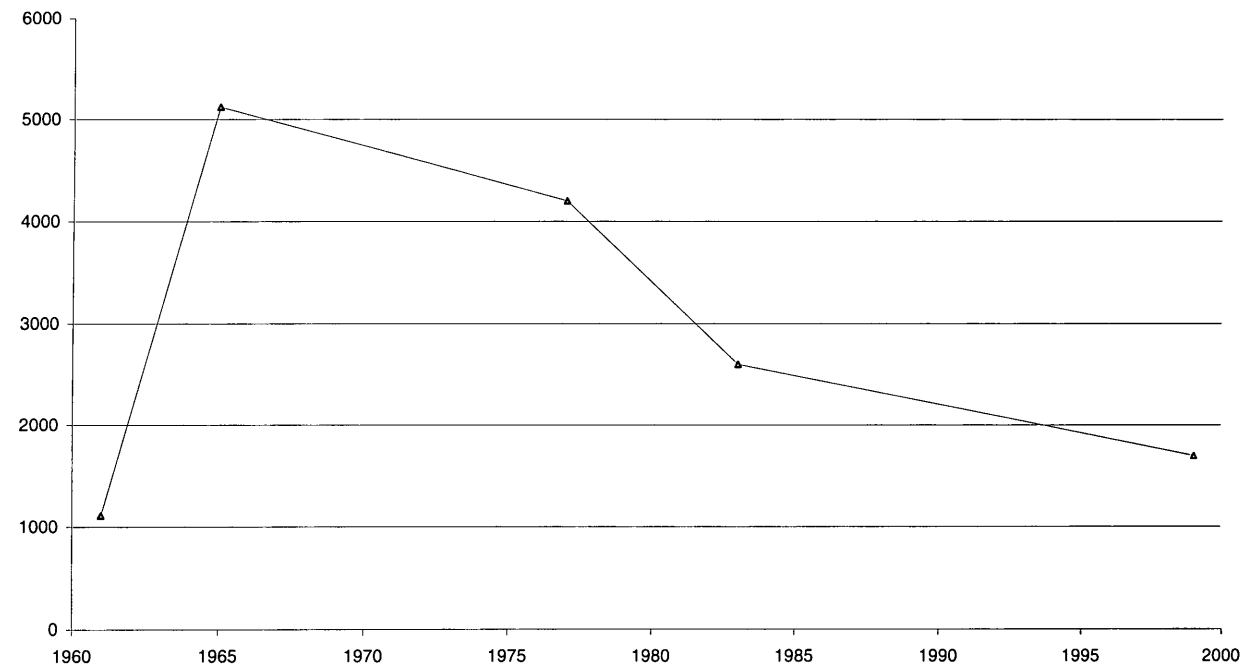
5.7.1. The rise and development of the industry in the area

The settlement of the chemical industry in Brindisi originated from the combination of the political project of national State to attenuate the socio-economic cleavage between the North and the South of the country as well to expand the nation's chemical industry⁹⁹ and the strategies of the few chemical companies operating nationally during the 1950s. In the industrialisation programme of the 1960s, Brindisi was selected as a 'growth pole' which cost 130.7 billion Lire between 1962-1968 (Svimez, 1971) and relied upon the chemicals industry. In addition, although formally justified with expectations linked to the expansion of Mediterranean markets, Brindisi, as a location for chemicals, originated from Montecatini's competition with Anic, the two major Italian chemical producers of the time. Montecatini, a chemical and mining conglomerate, entered the petrochemicals business and embarked upon

⁹⁹ As indicated by Chemical Week (2 –12-1981:31), "for a decade, the Italian government ... has subsidised many of its [chemical industry] projects. World-scale plants were built, but they lacked the necessary world-wide sales and distribution systems. The result has been rampant over-capacity and a constant flow of red ink".

the construction of a huge plant in Brindisi¹⁰⁰, where it already had a fertiliser plant since 1929, to respond to Anic¹⁰¹ construction of a fertiliser and a petrochemical plant in Ravenna. The plant in Brindisi could refine 1 million tons per annum of oil and the first cracker produced 160,000 tons of ethylene per annum. Other products were chlorine, bromine, polymers, PVC and aromatics. At the beginning of its activity in the early 1960s, the plant employed more than 1,000 workers and numbers quickly grew to more than 5,000 in 1965 (figure 5.5.).

Figure 5.5. Employment trends in Montedison/EniChem,
(selected years)



Source: Interviews, 1999

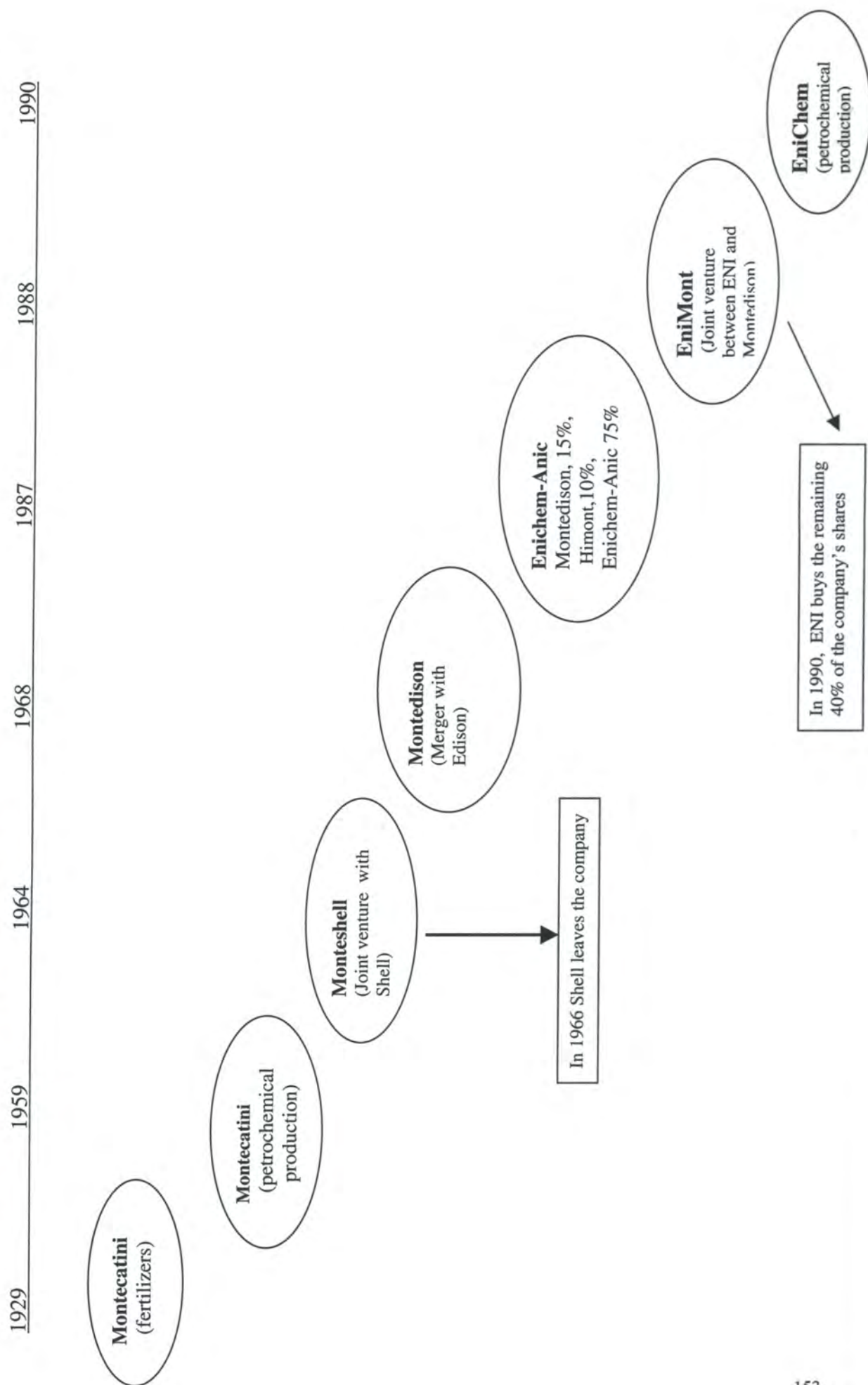
Since the very beginning however it was clear that for its sub-optimal productive arrangements¹⁰², Brindisi had turned to be disastrous for Montecatini’s budgets (Amatori and Brioschi, 1997). To obtain more capital but also to raise capacity for the demand-led boom of petrochemical products, in 1964 Montecatini entered a joint venture with Shell (figure 5.6.), whose management identified the major limits of the plant in its productive arrangements and its excessive workforce.

¹⁰⁰ The site had a surface of 5km², four times the extension of the city, 45km of roads and 20km of railway were built internally to the plant area to allow the movement and transport of raw and final materials. A dock pier allowed the docking of medium-size ships.

¹⁰¹ At the time, the company was guided by Enrico Mattei.

¹⁰² As indicated by a local informant, the yearly quantity of ethylene was produced by three plants rather than one.

Figure 5.6. Business changes in the petrochemical plant in Brindisi



Shell suggested a pattern of productive and work rationalisation which was turned down by Montecatini. Two years later, it became the sole owner again of the plant. In the meantime, after the nationalisation of electrical energy (1962), the capital gained by Edison¹⁰³ allowed it to invest in petrochemicals production and to become Montecatini's major internal competitor with which it soon searched for an alliance. The companies merged in 1968. Montedison was born without a precise corporate strategy and from two companies that, because of the excessive diversification of their investments, shared financial and productivity problems (Barca, 1997).

5.7.2. Corporate culture and internal labour market: a tripartite pact between parties, management and unions

Although born as a private company, the corporate culture of Montedison was affected by the role it had been given, as for other companies, by the Italian State. The public money received to locate in the South of the country to fulfil the role of the engine of development fed a culture of business unaccountability and of political interference influencing the interactions between management and workers and leading to the deterioration of the corporatist model of regulation of employment relations. As argued by Trigilia (1992), the influence of political parties in management undermined efficiency as companies like Montedison came to symbolise scarce economic efficiency and high political productivity.

In Brindisi, the *imprimatur* of the influence of the local political class was the outcome of the action of lobbying of the local DC to the national parliament. The management was chosen on the basis of "its capacity to be friendly with politicians so to obtain more money for the plant", and the unions: "there has been a time, around the mid-1970s, in which the subscription to CISL [Confederazione Italiana Sindacati dei Lavoratori; this is the trade union close to the former DC] was the decisive element to enter the plant: indeed, I might say that 90% of unionised workers belonged to that union"¹⁰⁴. This DC-led consensus became the mechanism regulating the employment relation.

One major effect of this system was the over-manning of the petrochemicals plant. Thus, whilst it is true that one of the features of the Fordist model of organisation of work was its tendency to generate excessive workforce as demarcation barriers existing between

¹⁰³ Edison was the biggest Italian electric company.

occupations limited workers mobility (see Amin, 1994), the Italian chemicals companies accentuated this trait. Indeed, the system of financial incentives to plants in the South, under the extraordinary intervention, was linked to personnel numbers. In this picture, the unions extended their power both within and outside the workplace, by practising the politics of consensus. They became important actors in decisions concerning which workers should be hired in the plant. As acknowledged to me by a senior trade unionist:

“Our offices were assaulted by people who wanted to work in the petrochemical plant. It seemed to be at a job centre, ... we tried to help as many as we could, that were close to the union”.

Two intertwined dynamics emerged as a consequence. First, although market trends often dictated plant closures or the substitution of some productive lines, measures to reduce the workforce were never implemented due to the commitment to safeguard the existing employment. Second, hiring episodes, which did not respond to any cost evaluation, characterised plant life. An example is given by the immediate hiring, at the beginning of the 1980s, of 700 workers under the so-called ‘Grandi plan’¹⁰⁵ before the actual start of the programme that had to double plant capacity. In the Brindisi petrochemicals plant there were workers who were literally doing nothing all day or reserved marginal maintenance operations.

The organisation of work reflected the excess of workforce. First, as explained by a retired top manager of the company in an interview, “there was no scientific approach to define the number of people needed to carry out a task”. Indeed:

“there was the so-called K factor [used to hire workers], given by the ratio between the number of working hours in a year and the number of employees. As it was 5 point something, 6 people were deemed indispensable”.

Second, the petrochemical plant retained in-house a series of services. Except for the catering and cleaning services, the maintenance, the engineering activity, the training, the security and anti-fire service and logistics, were provided internally. This significantly raised labour costs as those workers were given the same favourable work conditions negotiated under the national chemicals contract, one of the best in terms of wage and employment relations, although their utilisation was intermittent.

¹⁰⁴ Comments respectively by a senior petrochemical manager and senior trade unionist.

5.8. The restructuring phase of the mid-1980s

5.8.1. The macro-economic picture and the political re-organisation of the chemical sector

The international chemicals market, especially for heavy chemicals products, suffered from a serious backlash during the 1980s. First, the recession phase was fuelled by the rapid increase in the price of raw materials following the second oil shock in the second half of the 1970s. Second, during the decade, the competitive advantage of Western companies, based principally on technology, reduced allowing the proliferation of new producers, which built up their own chemicals industry to decrease their dependence on imports. This created the conditions for global over-capacity¹⁰⁶, also exacerbated by a search for economies of scale as a means of reducing unit costs (Ranci and Vacca', 1979).

The Italian chemicals industry however had started to experience difficulties already at the end of the 1960s. As internal consumption grew more than output, in five years from 1967 to 1971, the trade deficit rose by ten times (Economia Italiana, 1997). Consequently, the competitive position of the main Italian companies at the beginning of the 1980s was worse than that of their competitors, especially in terms of the burden of debt and the limited amount of research activity (table 5.4.). During the same period, Italian companies lagged behind their main international competitors who had begun to concentrate on core business, to rationalise, and increase R&D activities (figure 5.7.).

The general economic circumstances and the specific situation of the Italian industry compelled the Italian State to re-organise the sector by delineating its strategic lines. Despite the injection of capital provided by ENI to Montedison at the end of the 1960s through the acquisition of a consistent number of shares¹⁰⁷, the management of Montedison was not able to implement the strategic policy it had planned, consisting of the exit from the petrochemical business and the strengthening of its presence in the light chemicals.

¹⁰⁵ Alberto Grandi was the then ENI's chairman.

¹⁰⁶ Some European countries such as Portugal, Yugoslavia, Turkey have entered the petrochemical production at the end of the 1970s as well as some Middle Eastern countries such as Iran, Iraq, Saudi Arabia (Ranci and Vacca', 1979).

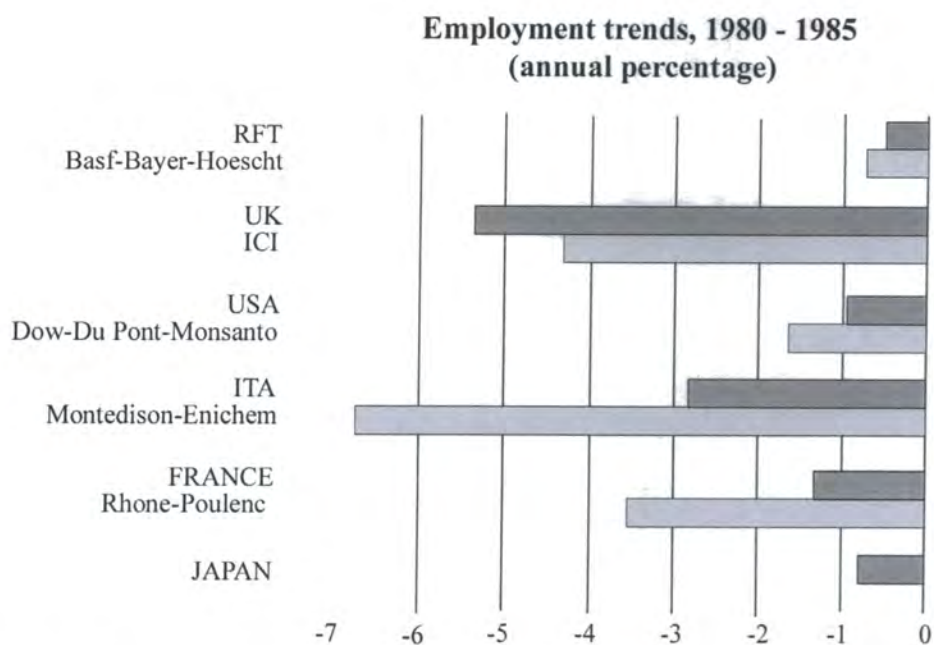
¹⁰⁷ In practice, ENI became the main shareholder of Montedison but it used only half of its shares to avoid the alteration of the shares allocation (Barca, 1997).

Table 5.4. Comparisons among the main international chemical groups (1980-1981)

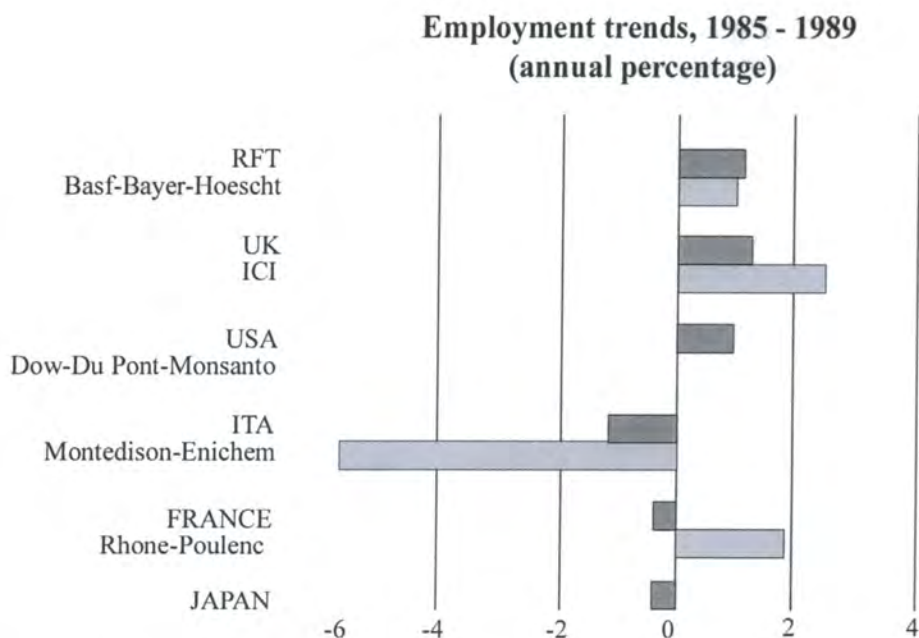
	Income before taxation/ turnover	Income after taxation/ turnover	Interests and fin. expenses/ gross operating profit	Interests and fin. expenses/ turnover	R&D/ turnover
Montedison	-6.6	-6.3	154.9	11.3	2.2
Anic		-17.2	101.3*	5.1*	1
Rhone-Poulenc	-3.4	-3.8	79.8	5.5	6.1
Atochimie	-8.4	-1	45.6	2.2	1.7
BASF	4.3	1.2	n.a.	n.a.	3.5
Bayer	4.5	1.8	40.6	4.2	8.2
Hoechst	4.2	1.3	29.2	3.2	5.4
ICI	5	1.2	18.3	2	3.6
DuPont	8.9	5.1	9.8	1.6	3.2
Monsanto	6.6	4.3	n.a.	0.8	10.7
Dow Chemical	8.9	6.3	20.6	3.4	3.3

*= calculated for 1980

Source: Adapted from Federchimica, 1991



Data for Italian companies 1981 - 1984, for American companies 1982 - 1984



Data for American companies 1986 - 1988

Figure 5.7: Employment trends in the major chemical companies of six developed countries (after Federchimica, 1991).

Yet, for a long time, private chemical companies (Montedison, Sir, Liquichimica) and EniChem were competing in the same markets with the same products.

It was only in 1982 that an attempt to rationalise the sector was made. The 'National Chemical Plan', put forth by De Michelis¹⁰⁸ and approved by the Italian Parliament, encouraged the two main Italian chemical groups, ENI and Montedison, to rationalise. The plan foresaw the specialisation of each group in their core activities, also through some business swaps, and aimed at creating two spheres in the Italian chemical industry, one public and one private. Accordingly, ENI consolidated its presence in heavy chemicals, while Montedison sought to concentrate its efforts in light chemicals and pharmaceuticals. The rationalisation had some effect: from the mid-1980s, Italian companies started to make profits again even if this was also due to favourable circumstances such as the rise in demand and prices (table 5.5).

5.8.2. Industrial restructuring and redundancies in Brindisi during the 1980s

Falling demand coupled with rising costs of raw materials and the presence of new producers heavily affected the petrochemical plant in Brindisi, which had also its own technical problems. In 1975, the 'topping' plant, in which crude oil was processed to obtain virgin naphtha and diesel oil, was halted for technical problems and it started to be supplied with virgin naphtha. Then, in 1977, the P2T ethylene cracker blew up. Without the topping plant and the main cracker, the few production lines still active (the CVM plant and the other cracker plant producing 80,000 tons per annum) required the import of raw materials such as ethylene, polyethylene, butadiene and cloretans. The viability of the plant was seriously compromised. Reduced production brought a large rise in unit costs. As indicated by a senior manager of Montedison, now in EniChem, in an interview:

"fixed costs represented 28-32% of the annual turnover, a very high percentage if one considers that they are good when they are below 10%, and we had up to 20% loss for each unit of product. This because for instance polyethylene was produced for 800 Lire and sold at 750 Lire".

¹⁰⁸ Gianni De Michelis was the then Minister for State participations.

Table 5.5. Net operating income of the main Italian chemical companies during the 1980s
(millions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989
Montedison	-717	-315	-26	243	464	527	490	362
Enimont							844	740
EniChem	n.a.	-651	-159	-387	...	131	496	

The 1988 values for Enimont have been calculated pro-forma

Source: Adapted from Federchimica, 1991

In these circumstances, Montedison decided to close its activity in Brindisi. The company's incapacity to adapt to the new market conditions as well its intention to pursue the business re-orientation as indicated in the National Chemical Plan suggested the dis-investment of the operations in Brindisi as the only viable solution. In 1978 the first 800 workers left the plant.

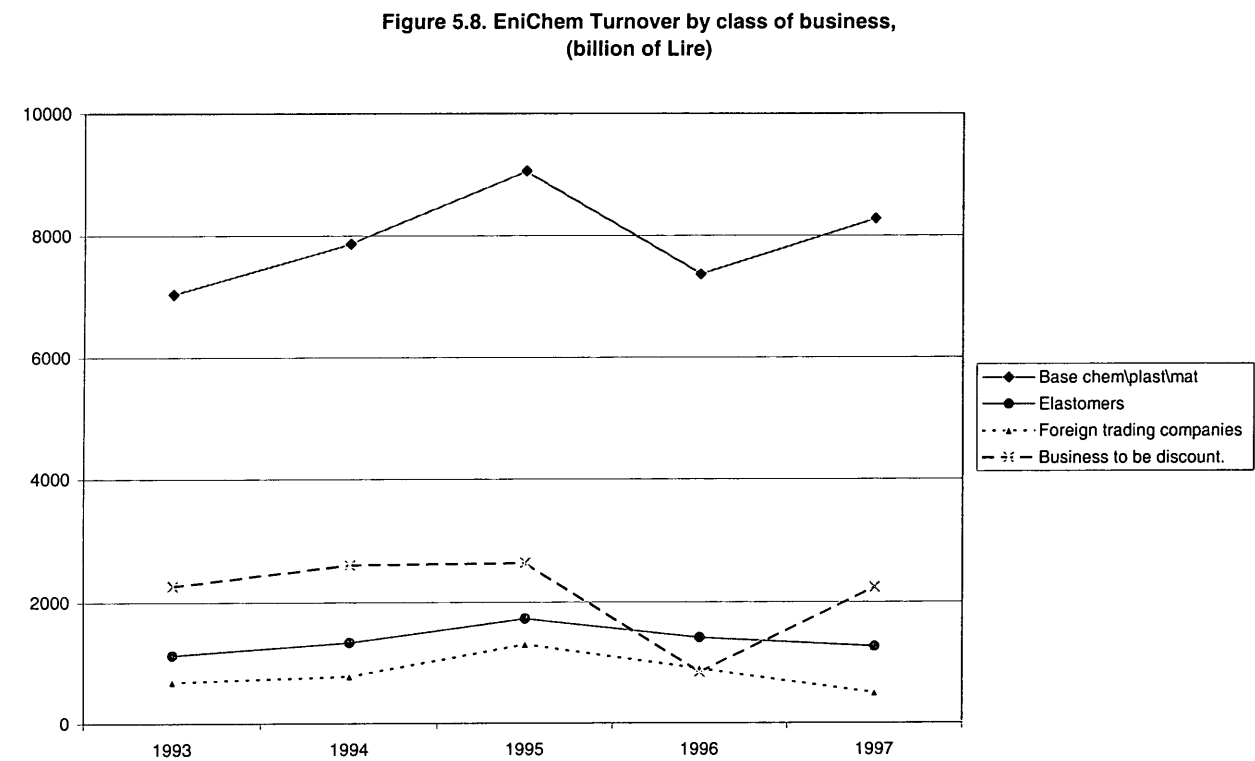
It was the intervention of the State, propelled by massive union-led demonstrations in Rome, to force the company to modify its decision. Trade unions were invited to negotiate with the company a process of restructuring without plant closure. They agreed on a restructuring plan through which, using public money, Montedison sought to re-organise production also through the rebuilding of the ethylene plant (Chemical Week, 23-12-1981), promote new investments in technologies and downsize the workforce. Another 700 workers were made redundant out of a total of roughly 4000 workers in 1983-1984. Wage protection was ensured by CIG, used extensively, and special laws were approved to allow the termination of employment through incentives such as early retirements schemes. Workers with families and sons were favoured in the maintenance of their jobs.

The negotiated solution of the Brindisi's crisis did not however conclude the history of problems. During the second half of the 1980s, Montedison's "aggressive policy of growth" (Amatori and Brioschi, 1997:141) led the company into other financial difficulties which once again ENI was called to limit. The merger led to the constitution of Enimont first, and then, with the collapse of Montedison, ENI came to control the whole Italian petrochemicals production (refer to figure 5.6.).

5.9. Regaining efficiency: explaining the redundancies of the 1990s

The 1990s mark the decade in which the process of consolidation of the chemicals industry in Brindisi is pursued with substantial steps taken to regain efficiency. Like its competitors, EniChem rationalised its presence in the chemicals market by focussing on core activities and dis-investing from its least profitable businesses. It left the fibres and agriculture businesses in the first half of the 1990s and strengthened its presence in the heavy chemicals markets. Its downward profitability trend was halted as the process of business consolidation started to be

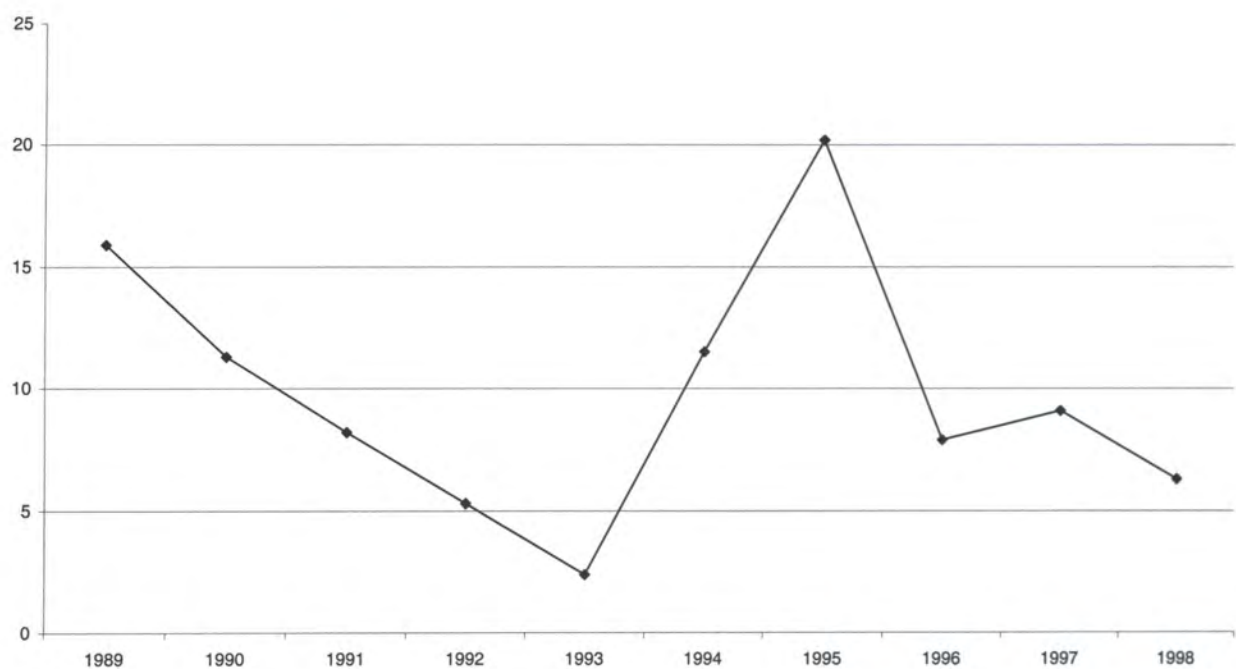
fruitful after 1993 (figures 5.8. and 5.9.)¹⁰⁹. This strategy has also allowed the company to strengthen its position in the European market, now constituting 90% of its sales (figure 5.10.), with some remarkable market shares (table 5.6). In addition, central government intentions to privatise has led EniChem to pursue a series of joint ventures with foreign companies to exploit company-based competences as well to reduce competition in certain markets.



Source: EniChem Annual reports

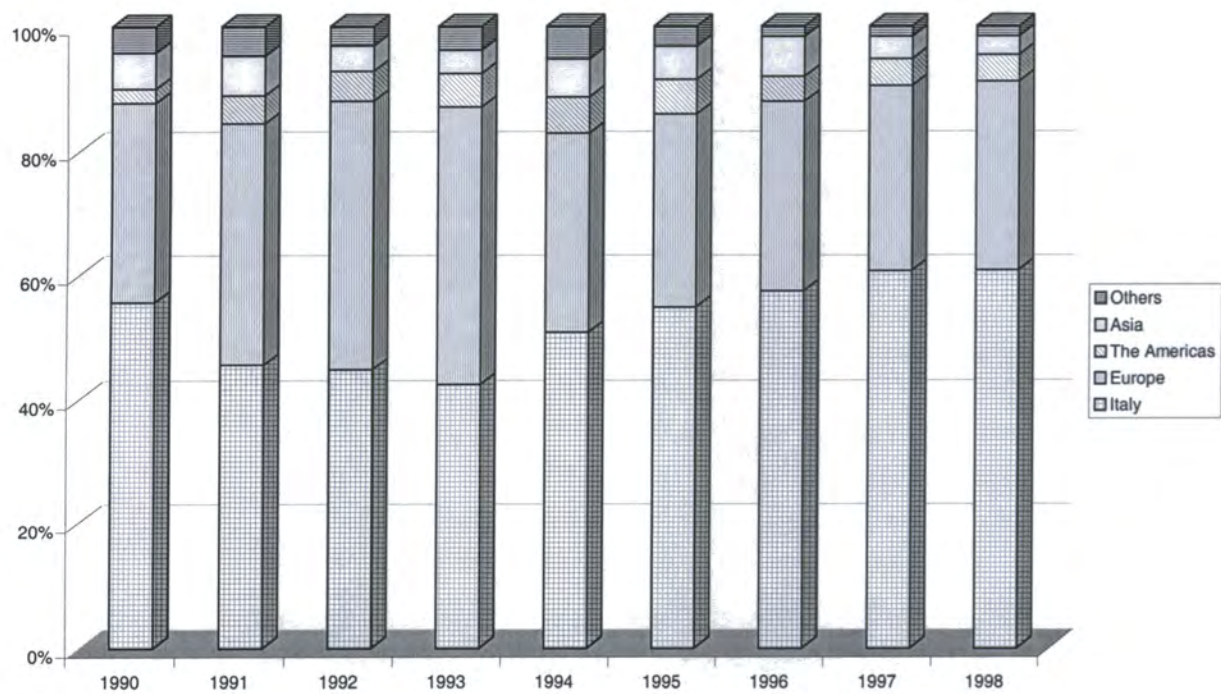
¹⁰⁹ The 1994 and 1995 values reflect a particularly favourable economic conjuncture for the company given by the rise in exports above all towards China, the rise in the products prices and the devaluation of the Italian currency (EniChem annual report, 1995).

Figure 5.9. EniChem Profits as percentage of sales during the 1990s



Source: EniChem Annual reports

Figure 5.10. EniChem Turnover by geographical areas



Source: EniChem Annual reports

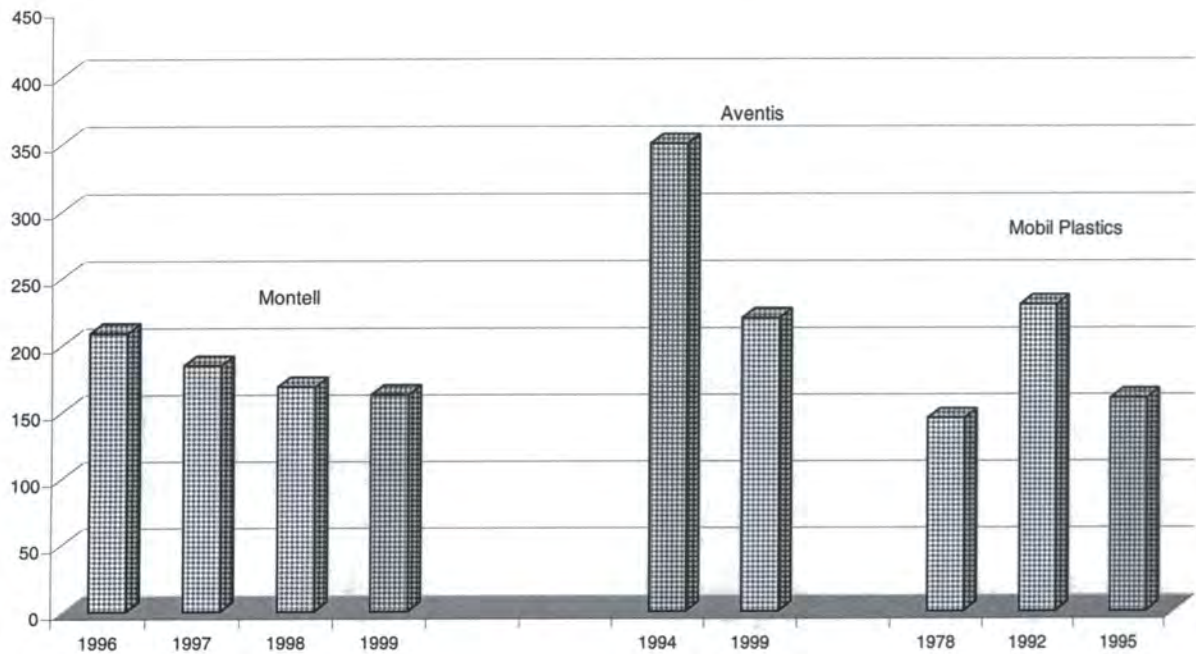
Table 5.6. EniChem in the 1990s

Business area	Business description and main products	Examples of applications	EniChem position
Petrochemical	Olefines and aromatics (ethylene, propylene, butadiene, benzene)	Intermediate products for the plastic industry, solvents, fine chemicals, tyres, antifreeze products	European leader for ethylene, second producer of benzene third producers for xylene
	Intermediate (phenol, cumene)		Second European producer of phenol
	Intermediate for Polyurethanes Chlorine (MDI, TDI, soda)	Vehicle components, furniture, footwear, construction materials decorating	Third European producer of TDI
Polymers	Styrene	Industrial and food packaging, vehicle components, semi-conductor and micro-electronic packaging	Second European producer of styrene
	Elastomers	Tyres, footwear, adhesives, building products	European leader in SBR and BR tyres

Source: EniChem Annual reports

As a consequence, three important companies, although one of them has now ceased its activity, located in Brindisi. Polimeri Europa is a company born from a joint venture with Union Carbide for the production of polyethylene and olefins; Montell, a joint venture with Shell, specialised in polypropylene. Finally, EVC, closed in December 1999, was the fruit of a business agreement with ICI for the production of vinyls. The petrochemicals site is currently the location of EniChem, Polimeri Europa, Montell and ChemGas which exploit common infrastructures and facilities. Outside the petrochemicals area, there are Mobil Plastics Europe and Aventis (former Lepetit), historically successful activities in Brindisi, and also other locally-owned companies which are consolidating, some of them with the funds of the Territorial Pact (table 5.7.). The employment trends of some of these companies are indicated in figure 5.11.

Figure 5.11. Employment trends in some chemical companies in Brindisi, (various years)



Source: Interviews, 1999

EniChem’s promotion of the joint ventures mentioned above has also been interpreted as the sign of its complete exit from the chemicals sector¹¹⁰. Consequently, the tormented ownership structure in Brindisi is destined again to suffer modifications. As explained by ENI’s president, “the heavy chemicals sector is highly competitive on a price basis and highly

¹¹⁰ Moreover, as pointed out by some managers in Brindisi, single product corporations are for their same nature extremely fragile on the market.

Table 5.7. Chemical producers in Brindisi

PRODUCERS	BUSINESS DESCRIPTION	EMPLOYEES
<i>Within the petrochemical plant</i>		
EniChem	Ethylene, butadiene, olefines, aroma	1500
Carbide)	Polyethylene and olefines	290
Montell (joint venture Montedison and Shell)	Polyethylene	163
ChemGas	Gassy substances	n.a.
<i>Outside the petrochemical plant</i>		
Aventis (merger Hoechst-Rhone-Poulenc)	Pharmaceutical products	201
Mobil Plastics Europe	Cling film in polypropylene	160
Europlastic Sud	Plastic materials	n.a.
Europlatica	Plastic materials	n.a.
San Marco Sub	Diving suits	2
Icem	Waterproof products	13
Ri.Be.	Audio and video cassettes	9
Areta	Plastic furniture	27
Camassa	Plastic pipes	20
A.G.Scavi	Plastic materials	12
P.P.E.	Polyethylene containers	19
Polyman	Plastic packing	11
Giano Plastica	Plastic materials	30

Source: Interviews, 1999; Provincia di Brindisi, 1999

cyclical on a profit basis. There is zero brand loyalty and advantages of product innovation have a short life span” (EIU, 1999:15). The return to efficiency is therefore complex and revolves around a variety of strategies, as we see below.

5.9.1. Technology-led changes

Brindisi’s chemical companies have sought to maintain adequate levels of efficiency and market share through the progressive sophistication of their technological apparatus and knowledge. Companies in the area are adopting ‘second generation technologies’, namely new catalysts, to obtain enhanced product performance in purity, clarity and variety of uses at lower costs. Technological innovation leading to the intensification of the production process and modification of product is generating in Brindisi, as theoretically contended by the business cycles approach, an almost automatic rationalisation of the workforce. In Brindisi, as explained to me by the manager of a local company:

“Technological innovation is the greatest job reducer. Today the companies located in petrochemicals produce two or three times more than when the plant was at its maximum employment peak. I think EniChem produces now 2 million tons of plastic material with 1500 people. Just before the restructuring phase with 5000 people the production was 700 tons”.

The labour saving impact of technology as an explanatory cause of redundancies is also offered by the officer for the industry of a local union:

“... the methods of production of ethylene and polyethylene have changed. There has been a substitution of workers in coincidence with the introduction of new installations. A cracker could once employ 400 people, now they may be 70 or 80”.

EniChem’s polyethylene production illustrates the effects of technological innovation. In less than a decade from 1993, production, concentrated in one plant rather than three, has doubled reaching (400,000 tons per annum), whilst the number of workers has halved (from 150 to 70) as well home energy costs (-50%) and maintenance costs (-25%)¹¹¹.

The process of technological innovation has not created new jobs. Recent productive investments in the area have created no or minimum employment opportunities. Thus, as indicated by a local unionist in an interview:

“Polimeri Europa is a very good company. Its plant is technologically advanced but its investments created no new jobs internally”.

During 1996-1997, the company invested 400 billion Lire in Brindisi in addition to roughly 800 billion Lire spent between 1992 and 1994. The gas-phase plant uses Unipol PE technology, Union Carbide’s most celebrated technology to manufacture polyethylene. The plant combines high pressure solution and slurry polyethylene technology to obtain maximum effectiveness and versatility of the output for different commercial uses while respecting environmental standards. The new process has improved the quality of output; batch to batch consistency is ensured although the process of production allows major economic savings. Polimeri is expected to produce 400,000 tons of polyethylene with 300 workers. At the moment there are 290 workers (Provincia di Brindisi, 1999).

5.9.2. Changes in work organisation

The second factor that explains redundancies in the chemicals industry of Brindisi is organisational changes, implemented to improve cost-effectiveness. Two processes are underway. First, outsourcing has involved particularly EniChem and a few other companies that had adopted a vertically integrated organisation of production. By externalising support activities, they are favouring the rise of autonomous specialised companies. EniChem has outsourced maintenance and engineering; it has retained training and logistics while leasing, for instance, security and the fire service to the other plants located in the petrochemicals area. The choice of outsourcing is dictated by deploying the core workforce to core activities. As the manager of a local chemical company clearly explained to me:

“Some of the activities that we used to carry out internally with a very low level of efficiency have been given to others which employ the same number of workers or even more. Connected to our company, there are three other little companies that either work our products or give us a service. ... The bigger the companies the more rigidities they develop internally. When in a single system there are highly sophisticated process operations and activities with low professional content, the latter tend to become bottlenecks for the company”.

Clearly, in many cases, job losses in the chemicals sector do not correspond to absolute losses but rather to the transfer of jobs to subcontracting companies operating in other industrial sectors, although no data is available on the scale of this.

¹¹¹ Data from an interview with a senior manager of the plant.

The second process consists of organisational changes associated with the adoption of new management models. As explained by the plant manager of a local company, job losses are occurring as a consequence of, for instance,

“the internal re-organisation brought about by the automation of production processes and the electronic system of control on the production process which has rendered superfluous some of the previous workers”.

They are also related to the process of multi-skilling involved by new forms of employment policies. Thus, as stressed by another personnel manager:

“ ... the preferred organisational model has been adopted by our company at the global level, it implies a different way to operate through job enrichment, with more autonomy and qualification. Workers are required to be more flexible, more qualified and responsible ... [for instance] it's worthless putting a supervisor each three professional workers if the professional who leads the plant is able, because of his/her qualifications and the organisation of work, to run it by him/herself”.

5.9.3. The EVC dis-investment: efficiency and plant closure

During 1999, Brindisi's chemical industry witnessed the redundancy of 160 workers in coincidence with the closure of the local EVC plant (European Vinyls Corporation). This joint venture between EniChem and ICI had become the leader of PVC production in Europe with a series of plants spread across the continent. Job loss in Brindisi can be explained neither by the economic performance of the site nor by the inflexibility connected to the presence of trade unions, as we would expect following the orthodox argument. Indeed, as clarified to me by one of the workers made redundant:

“Brindisi was the only Italian site in which the theoretical capacity [the one allowed by the installations] and real capacity of production [the effective one, accounting for break-downs and maintenance] were the same, that is to say 185 thousand tons of CVM and 140 thousand tons of PVC. And this was obtained with 160 people”.

Similarly, a unionist stressed in an interview:

“To render the plant more efficient than the others, we [unions] have swallowed an agreement according to which workers could have been asked to carry out additional tasks to the usual ones. Also, eight months before the closure, we agreed for the plant to outsource all the services with further savings as fixed costs became variable ones”.

The decision to close the plant has been explained by the corporation and local managers as the outcome of a strategy of rationalisation aiming to achieve economies of scale in relation to

both production and markets, which has led to the concentration of the productive activity in certain sites while closing others. In other words, the Brindisi's EVC plant would have been the 'victim' of an intra-corporate process of rationalisation which has no regard for the site efficiency. This is only partly true. Concretely, a combination of different causes have contributed to the plant closure. First, the plant has been penalised by market trends. The market for PVC is suffering from saturation and the price of product is low. For companies like EVC, specialised in just one production, market problems become serious threats to their same existence. Diversification strategies are not possible. Nor are dis-investments. As explained to me by an ex-EVC worker and trade unionist:

"The production of PVC is convenient for companies that are diversified. Indeed, PVC is a waste of other chemical production processes".

Second, despite having a leading role in the European market, the company performance has been compromised by the competition from countries such as Romania or other Eastern European countries which are managing to produce PVC at lower costs. This is possible because the quality of the material used is lower and the environmental standards for the production of plastic products are not so stringent as in Europe. In addition, in these countries, active industrial policies are encouraging the settlement of Western chemical companies through financial incentives and rapid administrative procedures for their localisation. Third, the plant has suffered from the slow growth of Mediterranean markets, such as the Turkish or the Egyptian markets, which were supposed to become the major buyers of the Brindisi production. As explained by one of the plant managers:

"The strategy is to cover the local [Italian] market with three sites [Ravenna, Porto Marghera, Porto Torres] rather than with four. Brindisi should have served the Mediterranean market which was thought to be in expansion. This has not happened. Brindisi has started to serve more central market which, however, are closer to other sites".

The episode concerning EVC in Brindisi confirms that the reading of redundancies and restructuring processes provided by the neo-classical position is mis-placed to the extent to which plant closures are explained exclusively through the argument of profitability. Indeed, the understanding of the corporate motives for shutting down specific plants can, as showed by the EVC case, leave aside profitability evaluations. It follows that such events are more complex and need to be related both the structure of activities within corporations (MacLachlan, 1992; Townsend and Peck, 1995) and to the wider market situation (e.g. Massey, 1995).

5.9.4. The quiet transformation: the socially-legitimated modification of the employment relation and the corporatist construction of industrial unemployed

In addition to the adjustments above, another process of restructuring is taking place in the local chemicals industry. What I argue here on the basis of the evidence gathered in Brindisi is that local chemicals companies have undertaken a path to profitability centred also upon the rise in labour productivity and the reduction of the costs of labour. By confirming the emphasis of the institutionalist tradition, it can be argued that the industry is witnessing a negotiated redefinition of the employment relation: company interest to regain efficiency and cost effectiveness through the modification of the composition of the workforce is having unions consensus as it implies no net job losses.

In addition to the strategy of not-replacing retired workers, companies are seeking to achieve greater cost-effectiveness through a unique programme of substitution between fathers and sons. Foreseen by the law n. 223 in 1991 among the instruments to be adopted in case of redundancy, the programme allows local chemicals companies, with the consensus of trade unions, to invite workers, usually the ones closer to retirement, to leave the company in exchange for their son. The convenience of this programme, through which 300 hundred young people have entered local companies in the last 5 years¹¹², is that it allows consistent cost gains. First, new workers cost less than workers who have spent longer time in a company due to career progression. Second, the new, better qualified workers do not need extra costs in training. More importantly, the programme is producing the first, positive effects on plant efficiency. An example is provided by a local manager in an interview:

“the new workers are able, because they’ve got the competence, to test the product during the phase of production; before this operation was done by special laboratories, hence the production process used to have some interruptions. In this way, the time for a complete production cycle has been reduced by 15%”.

In addition, the programme is an expression of a corporate desire to change the industrial culture as openly admitted by the above manager to me:

“The substitution programme between fathers and sons is having beneficial effects: it is making the workforce look younger, workers are more qualified. Obviously there are cost savings but this is not the main reason for us to implement it. The main reason lies in the fact that in this way the company has at its disposal a more flexible and available workforce in relation to its needs”.

¹¹² Data from union sources.

First, younger and more qualified workers, often new entrants in the labour market, are deemed to be culturally more prepared than old workers to accept new labour market rules. Accordingly, with such workers, companies are more likely to start an employment relation on the basis of atypical contracts¹¹³ (part-time, apprenticeship, temporary contracts, etc.) and implement flexible work practices (job rotation, team work, etc.). It is clear that the use of such instruments is expected to undermine the traditional organisation of work within chemicals companies as well the more general conception that a job in the industry is a job for life. Thus, for instance, as stressed by a former plant manager:

“Functional flexibility is very important. In this way, people are more committed also because their tasks are different and they aren’t fed up. Before everybody used to carry on its own task without looking around him”.

Second, the substitution of the first generation of chemicals workers with a new one is believed to sanction the new identity of chemicals companies in the community. The market orientation of the industry has amplified the need to abandon any lingering social obligation. As the personnel manager of a local company put it in an interview:

“Companies do not operate for moral or charity aims, but they are driven by profit and by results otherwise they do not stand up”.

An important aspect of the quiet transformation is that it is legitimated by both workers and unions, fully aware of restricted employment opportunities (in 1998, the unemployment rate in the area was 17%) and of national policies on flexible work practices. Motivated by the fact that a new job will benefit the same family, old workers are accepting early retirement. The unions, apart from a few remarks by some members (e.g. “this system finds the consensus of workers because their sons don’t find a job and unions must agree”), have become increasingly attuned to company interests. The comment below by a local union officer confirms the Marxist emphasis on the disciplining function of unemployment:

“It is a few years now that development has been based on geographical competition to have funds. Our companies operate in a free market. That’s why workers need to understand that things have changed, there have been too many privileges and this is also unions’ responsibility. Workers must be available, learn how to work”.

¹¹³ The use of non-standard contracts has been enormously encouraged by the national legislation during the last decade.

It is in this search to pragmatically adapt to counterpart needs and to look for commonly advantageous conditions, that unions have agreed also upon a series of measures enhancing flexibility in the workplace which are bringing a reduction in costs but, according to their expectations, should also lead to the creation of employment opportunities. With union consensus, Brindisi's chemical companies are in the position of taking into advantage of an array of options to implement different flexible work arrangements including job rotation and team work, longer shifts when there are peaks of production and wage flexibility (closing overtime).

The corporatist construction of redundant workers

It is clear that the process of industrial restructuring, which is leading to the re-composition of the chemicals company workforce through the consented redundancy of some workers and the creation of new employment, has not occurred neutrally. I contend that union consensus, ensuring social peace in a background of State income protection¹¹⁴, has allowed for local chemical companies to move away undesirable members of their workforce and to strengthen it around new values. Indeed, after collective dismissals in the mid-1980s during which criteria of social protection were taken into account, company management of the surplus workforce has occurred in a more careful way increasingly through individual agreements which have aimed to restore precisely the conditions of internal efficiency.

Therefore, the process of industrial adjustment has combined with specific, contextual, social dynamics expression of modified preferences in the labour market. The nature of current redundancies in the chemical sector is understandable not merely by looking at the macro-economic dynamics affecting the industry but also at the way in which contextualised social dynamics shape economic processes and labour market behaviours, defining, for instance, the social groups called to participate to it.

¹¹⁴ It is worth stressing that the law foresees the modification of the redundancy criteria it fixes in case of unions-employers agreement. These can consequently identify other methods for dismissal or categories subjected to it.

5.10. Conclusions

This part of the chapter has sought to provide an understanding of redundancies in the chemicals industry in Brindisi. Since the beginning of the 1990s local chemical companies have undertaken consistent moves to gain adequate levels of profitability. This has occurred primarily through the pursuit of process innovations improving both the techniques of production and the organisation of work. Redundancies have followed as a consequence. Nonetheless, I have also argued that, besides technologically and organisationally-driven adjustments affecting the employment level of the industry, the chemical sector is undergoing an equally deep process of restructuring aiming to increase the productivity of labour. Through the modification of occupational mix, chemical companies are achieving the twofold objective of reducing labour costs while improving worker performance. This is occurring without producing net job losses and traumatic effects on the local community. Indeed, I have observed that this quiet transformation is taking place with the social legitimacy of both workers and unions.

Part 3 –Industrial unemployment in the clothing industry

5.11. Introduction

The clothing industry is central to the economy of Brindisi as it employs 17.3% of total manufacturing workforce¹¹⁵, and especially so if the weight of the informal economy¹¹⁶ is taken into account¹¹⁷. Although the industry offers medium quality products at relatively low costs, it is now at a crossroads.

The progressive increase in competitive pressure from low-labour cost countries is undermining privileged relations with buyers¹¹⁸ and is accelerating the divergence between

¹¹⁵ Data from the 1996 intermediate census of the industry.

¹¹⁶ Companies operating in the hidden economy are referred to as those that during their activity systematically violate fiscal (e.g. the lack of registration at the chamber of commerce or the declaration of less turnover implying less tax burden) and contribution (e.g. use of workers not formally hired or paid less than foreseen by sectoral bargaining) laws.

¹¹⁷ Trade unions and Confederazione Nazionale Artigiani (CNA) estimate that official figures concerning companies and employees should be doubled to show the actual dimension of the sector.

¹¹⁸ Especially recently the discontinuity of orders has accentuated. A demonstration is given by the rise (also fed by the 'new' companies adhering to the realignment contract) in the requests of the ordinary CIG, which is applicable in cases of temporary productive crises, mainly due to lack of orders, to workers laid off or put on

the cost of labour and productivity due to the end of a system of fiscal discounts established by the State in favour of southern companies (Svimez, 1998). Yet, the existence of a territorial and sectoral agreement negotiated between sectoral trade unions, CNA and the provincial association of employers, which is effectively keeping down the cost of labour, has not reduced company need to restructuring to face the challenge of competitiveness.

This part of the chapter is devoted to the understanding of the causes of redundancies in the clothing industry in Brindisi and the processes of restructuring currently underway in the sector. It is precisely the search for competitiveness and efficiency, that has locally assumed a variety of forms reflecting the complex articulation of the productive fabric as well as of the diverse industrial cultures it expresses, that provides a powerful explanation of job losses. Three main points illustrate my argument. First, I argue that redundancies are in the hidden segment of the local economy due to fluctuations in demand (orders), and in the formal segment, due to companies shifting their production (or part of it) towards low labour-cost countries. Second, I argue that the choice to undertake a process of adjustment centred upon the reduction of the cost of labour represents only one example of a pathway to competitiveness embraced by clothing companies in Brindisi. Other companies are restructuring without reduction of the number of jobs nor through the limitations on worker rights such as e.g. the payment of real wages that are less than the ones declared officially. Third, I contend that the ensemble of practices and values constituting company culture have played an important role in influencing adjustment options as they have shaped their responses.

Section 5.12 shows how fragmented is the clothing industry. A plurality of companies, distinguished by different structural aspects, operate in different segments of the market and manifest also completely diverse relationships between capital and labour. The section provides also a historical background of the clothing industry in Brindisi. Section 5.13. outlines the macro-economic dynamics that have solicited varying restructuring responses. Section 5.14. shows that company culture plays an important role in producing a certain predisposition to embrace particular kinds of changes while resisting to others. Finally, section 5.15. focuses on the implications of current processes of adjustment upon the industry and its employment relations.

short hours. In 1994, 26,888 hours were agreed to local companies; in 1999, they became 105,189 hours (data from Istituto Nazionale di Previdenza Sociale (INPS), 2000).

5.12. Productive fragmentation and non-competitive labour markets

5.12.1. The current features of the industry and some historical indications

According to the Provincia di Brindisi (1999), the clothing sector consists of 264 firms and employs slightly more than 2500 workers, accounting for 17.3% of the total manufacturing workforce. The industry is based on a fabric of small and medium enterprises: artisanal companies of small or very small dimensions constitute the bulk of the local industry. Four different types of production characterise the sector: jackets and coats, representing the most sophisticated products, shirts, jeans and trousers and, finally, lingerie (table 5.8.).

Table 5.8. The clothing production in Brindisi

PRODUCT	COMPANY DIMENSION	SEGMENT OF THE MARKET ¹¹⁹	COMPETITIVE FACTORS
Jackets and coats	Medium/large	Medium/high	Quality, time, specialisation
Shirts	Medium/small	Medium/low	Quality/costs
Lingerie	Small	Low	Costs
Jeans and trousers	Small	Low	Costs

Source: Interviews, 1999

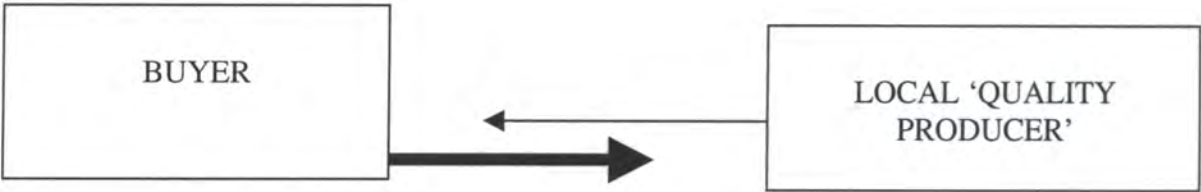
The output is only partially sold without the mediation of external buyers, although the provincial export of clothing products and furs has increased by 13% in 1998 in relation to 1997 (Istat, 1999)¹²⁰. Brindisi’s clothing companies are embedded into a system of productive specialisation in which they represent one of the links of a wider productive chain (figure 5.12.).

¹¹⁹ This refers both to the standards of quality of goods produced by a company and to the market outlets to which the product will be eventually sold.

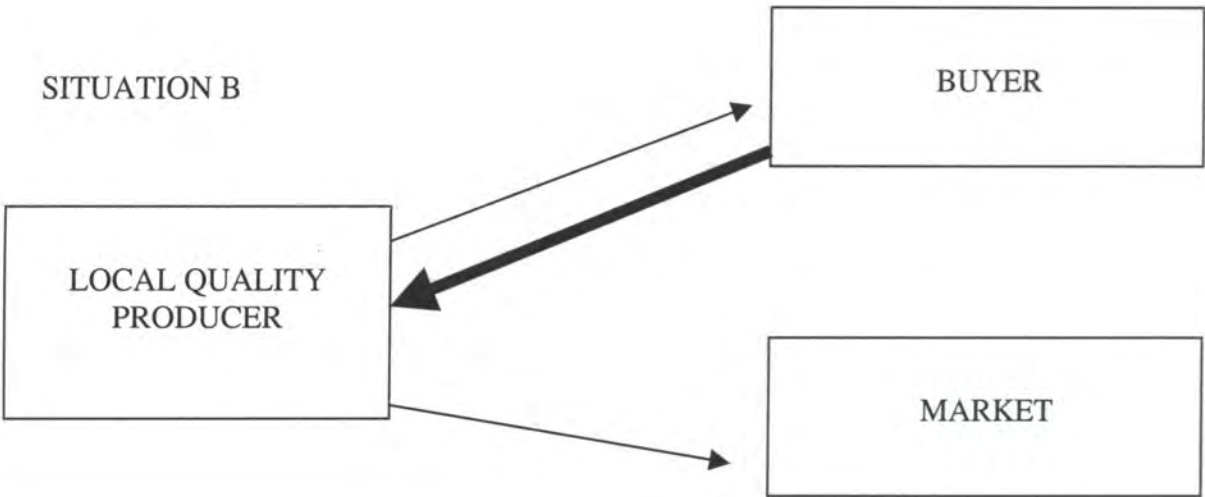
¹²⁰ This could also be the effect of the purchase of local production from buyers located abroad. Nonetheless, there is no evidence of such a phenomenon.

Figure 5.12.
PRODUCTIVE RELATIONS IN THE CLOTHING INDUSTRY IN BRINDISI

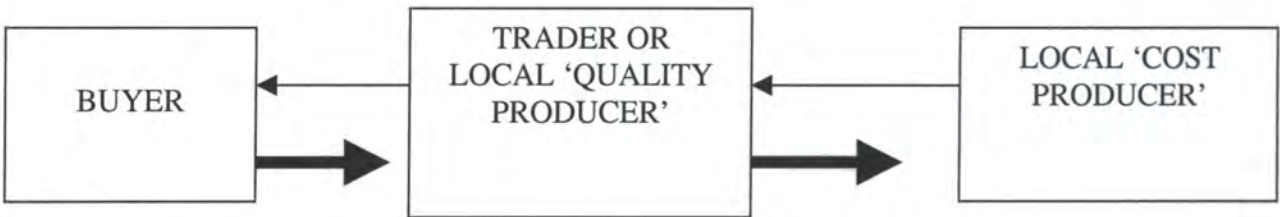
SITUATION A





SITUATION B



SITUATION C



Subcontract = 
Production flow = 

In the vast majority of cases, production is made *à façon*: they are subcontractors of external buyers mainly located in the north of Italy, that can be either big distribution chains or some of the world's most famous fashion industries (Moschino, Biagiotti, Marzotto, Benetton, Dino AR, Perla, etc.). In some cases, part of a firms' production is sold in street markets or little supermarkets.

Depending on the quality of the product and on the relationship with the external buyer, local companies can be classified as 'quality' or 'cost' producers¹²¹. Quality producers work directly for the buyers which, usually, supply them with both the fabric and the design to produce the final product. Limited batches of production are requested by the buyers which also operate tight controls on quality. A privileged relationship with buyers is therefore founded upon a combination of the quality of the product, the punctuality of supply and, obviously, the cost of labour which ensures them adequate margins of profit. Cost producers, mainly smaller and family units, can have a direct relationship with external buyers. More frequently, they sell to a trader or other companies (e.g. more structured companies) which either subcontract to them part of their production or act as a service firm, often supplying them with machines, designs, fabrics, so that producers are attributed the role to assemble the product¹²². In theory, subcontracting passages could be more than one in a hypothetical production ladder. The sequence of passages has however a determining role in producing the loss of shares of the added value produced and the downward pressure on costs: in this framework, in fact, it is the traders or buyers that, due to their access to the market, decide the price of products. Companies operating in the hidden economy are exclusively cost producers. The vast majority of them are 'phase subcontractors': they specialise in the carrying out of a single operation (such as the ironing) rather than in the production of the whole ply (Capriati, 1995). Their competitive advantage lies in the capacity to execute labour intensive phases of production at a very low price; this is possible due to tax avoidance.

There is, thus, considerable diversity among local firms. Only some of them are able to produce in accordance with the qualitative and technical standards required by their buyers. Such companies are financially viable as their output is sold in niche markets. Their focus is on the quality of the product and on efficiency time supply.

¹²¹ Compare Capriati's taxonomy referred to the clothing firms in the south of Italy (Capriati, 1995)

The vast majority of Brindisi's firms, instead, have a marginal role in the clothing chain. Their only competitive lever lies in price competitiveness, achieved by compressing costs. This segment of the industry works on tight profit margins. The limited financial viability has a deep impact on company organisation while, externally, it influences commercial relations which favour buyers.

The development and consolidation of the industry in Brindisi is related to the restructuring patterns of northern firms. In contrast to the strategies adopted after the mid-1970s by the clothing industry of many industrialised countries (e.g. Germany) to decentralise the most labour intensive phases of production to developing countries, in Italy the decentralisation occurred from North to South¹²³. In addition, it focused on quality and productive diversification besides cost gains (Fornengo, 1978). It is difficult to quantify the phenomenon in Italy, as data are based on specific case studies of firms. However, as indicated by Viesti (1998), decentralisation occurred also during the mid-1980s as the result of saturation of work among northern subcontractors. A survey conducted by Texabb¹²⁴ in 1991 showed that almost 54% of a sample of southern companies worked as subcontractors. Specifically, Brindisi's clothing companies displayed a much higher dependence on buyers as more than 81% of local productive units were subcontractors, by absorbing 77% of local employees (table 5.9.). In general the differential in the cost of labour for the two areas was 40% (Cerpem, 1991).

5.12.2. Non-competitive labour markets and local industrial cultures

Firms in the clothing sector of Brindisi vary in terms of size, financial viability as well technological capacity. Local companies are split in markets that are not competitive with each other. The structural diversity implies different levels at which wages are offered and accepted, and a diverse social meaning is attributed to wage by different employers and workers.

¹²² It is not unusual that fabrics are already cut to ensure the perfect correspondence between the quantity of fabric and the quantity of final product (Provincia di Brindisi, 1999). This is also done to avoid valuable fabric being retained by the local company and used to outsource products that will end on street markets.

¹²³ At the national scale, the growth of the industry coincided with an increase in exports rather than in foreign direct investments (Fornengo, 1978).

¹²⁴ Texabb is a national association of textile and clothing companies.

Table 5.9. A sample of Southern clothing and textile companies
(absolute values and percentages)

Province	Subcontractors		Autonomous		Both	Total
	local units	employees	local units	employees	local units	employees
Teramo	106	3734	30	1591	5	5521
Chieti	35	1345	4	947	2	2384
Pecara	49	1703	9	1123	6	3325
Campobasso	9	235	0	0	1	267
Salerno	22	556	21	413	11	1314
Potenza	3	141	0	0	0	141
Avellino	8	187	7	445	1	676
Benevento	6	189	0	0	1	241
Bari	42	1083	80	2625	11	4082
Taranto	5	193	7	307	2	647
Lecce	47	1497	22	844	10	2878
Brindisi	22	516	3	61	2	668
Napoli	22	794	73	2858	16	4391
Total	376	12173	256	11214	68	26535

Province	Subcontractors		Autonomous		Both	Total
	local units	employees	local units	employees	local units	employees
Teramo	75.2	67.6	21.3	28.8	3.5	100
Chieti	85.4	56.4	9.8	39.7	4.9	100
Pecara	76.6	51.2	14.1	33.8	9.4	100
Campobasso	90.0	88.0	0.0	0.0	10.0	100
Salerno	40.7	42.3	38.9	31.4	20.4	100
Potenza	100.0	100.0	0.0	0.0	0.0	100
Avellino	50.0	27.7	43.8	65.8	6.3	100
Benevento	85.7	78.4	0.0	0.0	14.3	100
Bari	31.6	26.5	60.2	64.3	8.3	100
Taranto	35.7	29.8	50.0	47.4	14.3	100
Lecce	59.5	52.0	27.8	29.3	12.7	100
Brindisi	81.5	77.2	11.1	9.1	7.4	100
Napoli	19.8	18.1	65.8	65.1	14.4	100
Total	53.7	45.9	36.6	42.3	9.7	100

Source: Adapted from Viesti, 2000

Labour market dynamics in the hidden segment of the local economy¹²⁵ have a peripheral nature¹²⁶ although, as suggested by several studies, the work in the hidden economy often represents the option of individuals that have limited professional qualifications or decide to undertake a path of work alternative to the ones connected to the prevailing capitalist mode of production (see review in Chiarello, 1983). Work is the expression of a local economy which does not produce a sufficient number of employment opportunities to satisfy the need of labour. Wages are low and respond to a culture that 'a minimal income better than nothing'. Without any legal guarantee, the wage becomes a source of income for irregular workers; entries and exits from paid work are related to family's changing needs and to demand fluctuations. These factors do not allow long-term career planning nor the acquisition of technical and professional capacities that are dissipated by the continuous interruptions of the work path (Provincia di Brindisi, 1999).

This segment also contains entrepreneurs who have started their business activity by imitating others, but soon encounter the difficulty of the market. As indicated by a local CNA officer, "there has been a lot of improvisation, many have become entrepreneurs but they suffer from a cultural deficit [incapacity to manage a company]". They have not been able to improve their initial status because of the lack of the basic managerial instruments and of financial viability and are, therefore, trapped into a short-term vision of the business. Theirs is a busy and endless search for orders which meet due to their capacity to compress the cost of labour. Relationships among capital and labour in this segment of the industry are dominated by practices of reciprocity. Concretely, workers and employers are bounded into situations which may span from complicity (e.g. workers do not pay taxes on their income or do not lose income subsidies, while employers do not pay the indirect costs of labour) to situations of exploitation (these are the cases in which workers's need to work becomes a source of completely uneven power relations at their expenses). In any case, no commitment links employers and workers and this has a great influence on the production process. As activities in this segment of the market are unregulated by the formal institutions of society (Castells and Porter, 1991), also the conditions at which labour is provided have no formal regulation. The definition of working hours, of labour shifts, of job tasks, etc. are left to face-to-face bargaining. Also, the process of wage setting occurs on the base of an informal negotiation with clear problems of power relations. This concerns exclusively the quantification of a

¹²⁵ This account comes from secondary sources and from the direct experience of local unionists.

monthly level of earning while excluding all the costs existing on the top of the salary (national insurance, health, pension contributions, etc.). Obviously, the workforce is not unionised and dismissal procedures occur in absence of orders and according to the criteria identified by the employer.

The formal segment of the economy presents cost and quality producers in a qualitatively different labour market situation. Employment dynamics in companies competing on costs are similar to those in the hidden economy. Whilst formally respecting collective bargaining, such companies use a series of irregularities to save on the cost of labour; for instance, savings are often achieved through administrative irregularities (companies declare a number of employees lower than the actual one) and, especially, through the intensification of work, the elimination of holidays, etc. Mutual distrust renders the work environment tense. The workforce is scarcely unionised and when this exists it is not regarded with favour by the employers.

The dynamics between labour and capital in the companies indicated as quality producers are rather different. These companies are the outcome of employer commitment to create efficient and profitable economic realities. Long-term projects inform their action. The propensity to invest in process and product innovation is higher as well as in the training of their workforce. At the same time, the workforce consists of qualified and experienced workers who display commitment and loyalty to the company. Turn over is low. A combination of reciprocal and prescriptive rules guide workplace dynamics which tend to be more co-operative and fair. Wages are fixed to national sectoral bargaining.

5.13. Pathways to adjustment and the specificity of redundancies

5.13.1. Demand fluctuations and the geographical shift of production: explaining redundancies in the clothing industry

Companies operating in the hidden segment of the market face competition from low-labour cost countries which is taking place in a twofold form. On the one hand, the production of such countries is increasingly attracting the orders of bigger local companies and, on the other, they have stimulated processes of plant de-localisation. It is their specialisation in

¹²⁶ However, one must consider, as suggested, that “the informal sector relates to the remainder of the economy very differently in different places, reflecting socio-economic and, crucially, national and local political

standardised products that exposes them to the pressure coming from developing countries; buyers can buy the same quality product cheaper. Redundancies in this segment of the market are therefore related to demand fluctuations: lack of orders produces a shrinking of the workforce. From a theoretical perspective, it is an example of ‘Keynesian’ unemployment, that is unemployment generated by the demand-side of the economy rather than by its supply-side. In this case, despite the absence of any type of formal regulation of the employment relations and the existence of real wage levels consistently below nominal ones, companies are unable not only to maintain adequate levels of profit but also to have their existence safeguarded. As indicated to me by the co-ordinator of the task force for industrial problems for the Puglia region:

“In the clothing industry, in Brindisi, there is a problem of legality. There is a lot of hidden economy and this is the major obstacle for a ‘clear labour market’. These companies exist as they exploit the expansive phases of productive cycles. And they are also the ones which usually knock down the cost of labour which is the only one they can govern at the company’s level”.

Other redundancies, roughly 150 jobs in 1999 according to union sources, are occurring in the formal segment of the market. They are the outcome of re-location, by some companies, of part of their production in countries such as Albania or Romania. The logic underlying this choice is clear and responds to well-known trends: the exploitation of the differences concerning the cost of labour and the employment relation. As indicated by the local officer of CNA in an interview:

“The problem is simple to explain. Job losses exist because some entrepreneurs have chosen to cut down their costs of production, above all, their labour costs”.

For these companies, plant re-location allows some retention of local production. As indicated to me by the entrepreneur who first decided to move part of its production abroad by leading to the downsizing of his plant in Francavilla:

“The key point is: is it better to ride the tiger or to let it eat you? We de-localise because it helps us to keep down our costs. With two plants, the average costs will be lowered. It shouldn’t be seen as an expedient, a way out. It is an opportunity to be exploited”.

Although the shift of the most labour intensive phases of clothing production abroad is based on the cost of labour, managers tend to justify it differently, stressing market entry. As the same manager put it:

“Here in Brindisi we will produce quality products while, there [Albania], we are going to produce products that require less expertise. In this way you don’t lose orders and clients. The reason to de-localise isn’t just to lower the cost of labour, but also to get into the lowest segments of the clothing market”.

By dumping the cost of labour through geographical mobility, the company locating in Albania intends to satisfy the request for standardised product and, at the same time, buyer demands for more quality products. This productive diversification, an ‘all-embracing’ strategy, combining mass and medium quality productions, is expected to allow them to maintain adequate levels of competitiveness and, particularly, to safeguard their relationship with traditional and new buyers. Such a process has implied the downsizing of the productive activity in the Brindisi area and led to job losses.

5.13.2. Forms of restructuring

The process of restructuring described in the previous section consisting of plant re-location and involving job losses concerns a limited number of companies. On the basis of the interviews and of the knowledge of local informants, I argue that other processes of restructuring have affected a larger number of companies. That is, responses to a similar macro-economic scenario have been diverse, depending on specific micro-economic dynamics. Two common elements however unite the experience of these companies: a) the cost of labour has been considered as only one of the elements b) process of transformation is occurring without any redundancies. Different forms of restructuring are shown below which, however, are not mutually exclusive.

The search for quality improvements and design innovation

The first example of restructuring is given by a company located in Ceglie Messapica that, to avoid competition from low labour cost countries and strengthen its relationship with buyers, has rejected the cost-competitiveness choice and decided to substantially rely upon on the improvement of its production quality. Accordingly, as the manager of the company put it:

“We have decided to be in the highest segments of the market. Our buyer is searching for quality, they will never go to Albania. Clearly this requires more efforts for our company and also more costs but at the end we will receive major benefits”.

The achievement of higher product quality implies primarily major and constant investments in technologies, improving and fastening the process of production. In addition, the companies that have chosen this path of restructuring are actively engaged in re-training their personnel. In the absence of training schools, the training is carried out internally, often with the aid of expert technicians sent to Brindisi by buyers. As indicated by a local manager in an interview:

“We have renewed our technological assets recently. We’ve got new machines CAM-CAD. These are allowing us to improve the cutting and sewing of the ply. We’ve been encouraged also by the buyer whose technicians sometimes come to help us. They’ve got 30 years of experience in the industry, they were doing these things before us”.

Another example is given by a company in Latiano. Besides the attempt to establish an autonomous trade mark (see below), the company is seeking to develop an in-house design unit which could provide it with a wider and diverse range of products than standard shirts. The challenge and the difficulties facing the company are expressed by its manager:

“We’re trying to do the quality leap which could launch us. The design of a proper collection and its autonomous distribution, besides the subcontracting activity, could free our potentialities and also render us less vulnerable to buyers’ whims. However, we’re facing totally unknown problems, the efforts are enormous and not only from a financial perspective”.

These companies have decided to escape from mass competition and low quality products by focusing on products that will be sold in the higher segments of the market. The buyers in these cases are big retail chains or *fashion maisons* in the North of the country or specialised outlets. Consequently, a virtuous circle is likely to start. Producer quality will attract the buyers who will maintain orders and cultivate also co-operative relationships which, in turn, will improve the quality of products or processes. The action of these companies is not driven by mere survival in the market. They intend to enter markets where artisanal traditions and technological innovation contribute to create the right productive and commercial mix. The pursuit of such an objective is not easy in an area characterised by external dis-economies and administrative constraints.

The search for a brand name

The logic underlying the restructuring process undertaken by companies seeking to sell products as their own trade-mark is very different. Such companies are seeking to partially free themselves from retailer-intermediary dependence. Clearly, there is awareness that complete autonomy from the system of intermediation is not feasible. However, they wish to achieve a certain visibility in the clothing market which might eventually bring diversification of their channels of distribution. Thus, one of the entrepreneurs who is involved in such an attempt explains:

“What [the strategy] I’m pursuing is to remain a subcontractor but, at the same time, try to trade limited batches of production by myself. I’m decentralising the main production in two new companies while this one is destined to my own production”.

The effort undertaken by these companies is huge. The limited knowledge of opportunities existing in the market and the often inadequate capacity to seize them constrain action. One example is given by an employer in an interview:

“An autonomous trade mark is a good idea but by myself it’s very difficult to implement, it’s very complex. That’s why I contacted a northern trader. A new company will be formed with a proper trade mark. I’ll take care of the production while he’ll be responsible of the distribution systems, outlets, markets, etc. This is the weakness of the Brindisi’s clothing industry”.

The search for market visibility explains the initiative of the CNA to set up a consortium among some local companies. The six firms making it up have prepared a common fashion collection under the brand Confex and have started to participate to some trade exhibitions in the North and abroad. The consortium is expected also to favour the activation of an autonomous channel of distribution. At the time of visiting, no meaningful opportunities have arisen for the companies, but this may be due to the novelty of the initiative rather than to its failure.

Product integration

Another example of restructuring path is revealed by a company, located in Ceglie Messapica, that has widened the range of services provided to its subcontractor, but also to other companies. In addition to the supply of shirts, this company offers additional services (that is ironing and packing) which are expected to attract further orders. Consequently:

“This is the first ironing service for women’s clothes in the area. This investment gives us an additional chance. We’re offering an additional service to the company we work for but, at the same time, we offer the service to others”.

Such diversification is expected to ‘fill’ a local weakness: buyers complain of the incapacity of Brindisi suppliers to offer other phases, such as the ironing or the washing of clothes (Cerpem, 1991).

The restructuring strategies indicated above illustrate the range of responses undertaken by clothing companies to the intensification of competition in the industry. Paradoxically, the challenge of competition has ended up opening new opportunities for the most vital firms of the area as they are moving towards higher quality standards that should ensure a greater stability.

5.14. The role of the local industrial culture

The above analysis, focusing on the importance of tangible factors on company behaviour, offers only a partial account of the variables that have influenced choices of industrial adjustment. My research confirms that company internal culture defined, following Schoenberger (1997), as the ensemble of material practices, social relations and way of thinking, plays a key role in shaping their adjustment path. Choices of restructuring are the expression of company’s knowledge and interpretation of the outside world and its position in it. Clearly, a company’s internal configuration becomes important during the phases of change and it can also constitute an element of vulnerability if it reproduces traditional and routinised behaviours while hindering others.

Below I analyse the relations underlying the dynamics between capital and labour, representing a specific aspect of the corporate culture, and the way in which they have influenced the processes of restructuring in Brindisi’s clothing companies. I discuss first the experience of cost-based companies, the majority in Brindisi. The choice to restructure through re-location has occurred in a context in which the relation between capital and labour is not consolidated but irregular, and where dialogue between employers and workers or/and their representatives is non-existent or problematic. Specifically, relationships within the company are the expression of a pact of temporary convenience, centred exclusively upon the monetary dimension of the exchange, which can break down easily. There is a lack of

collective values binding together workers and employers and, consequently, of the strength, continuity and stability that could help during phases of uncertainty.

By contrast, when corporate adjustments have coincided with quality improvements, companies have shown greater internal consolidation of behaviours and work practices which, in some cases, have enhanced change. Here, the relationship between employers and workers responds to a logic of co-operation. As we would expect following Akerlof's insights, workers and unions have become active supporters of the efforts of change made by employers to which a greater attachment to the workforce and to the area is recognised. In other words, these companies have a degree of plasticity, which gives them sufficient margins of manoeuvre but, contemporarily, allows them to maintain internal stability (Foray and Garrouste, 1991).

The activities of one of the most important companies of the Brindisi's province exemplify the first case. My conversation with the owner of the company gives a clear idea of the relationships with both workers and unions but also of the more general philosophy underlying the business activity:

“Workers have strange ideas. They think that to make money is easy. The area lacks credibility on the wider clothing market and one needs to say that it is also because of the trade unions. They raise their voice with poor local companies and don't think that the big northern companies, especially in the north-east, have for years lived using irregular work. What is happening here now is the same of what was happening in the north of the country some years ago. The small company here has to have everything according to the rules, anti-fire regulations, anti-this and anti-that, and in the north until few years ago there were completely irregular companies employing 1500 workers”.

It is clear that worker and union attitudes are both believed to hinder company interests. Yet, when the decision to move part of the production abroad was taken, the company in question “made redundant 100 workers who have not been given their last salary and the trade unions were prevented from entering the company” (il Quotidiano, 6-5-1999). The difficulty to govern internal dynamics has a clear influence on the way in which these companies interpret and think about themselves in the external environment. In general, the ensemble of local economic infrastructures but also formal institutions are perceived as hostile, always an obstacle, to economic action. For instance, redundancies are explained as the outcome of:

“the distance from the sources of supply, from the services which are all in Milan. ... The means of transport are inefficient, look at the trains for instance”.

In addition, although initially adhering to the commitment of the CNA towards the local industry through promotional initiatives, the company de-localising in Albania has successively deemed this commitment unsustainable. Such initiatives are believed in fact not to help competition. Relations are now difficult: the alleged lack of understanding of local formal institutions towards company's concerns translates into lack of support for local collective initiatives.

“Local authorities don't pay too much attention to the sector. Also from the local association of employers we've received only criticisms. The fact is that they don't know the difficulties of being in the market. It's easy to talk in theory but in practice it's us that fight an everyday struggle”.

In the same local context, however, other firms have embraced a completely different path of adjustment based on a different industrial culture. Employment relationships founded on mutual respect between employers and workers/unions have allowed the amelioration of internal quality and efficiency. According to a local employer:

“Employers need to understand workers. They are not things that you put here or there: they want to feel important and responsible for what they do. We had problems at the beginning because of absenteeism: we talked about the sense of responsibility and of the possibility to agree family leave when necessary. The problem has practically disappeared in our company”.

On the other side, the commitment towards the organisation to which they belong is clearly expressed by some workers:

“I have no doubts on the solidity of this company. Here there is a very good relationship between employers and workers. They have got a great experience and our trust in them is total. We have no fear, together [management and workers] we can overcome this moment which is a bit problematic and carry on the path of quality, of specialisation. Albania [productive de-localisation] doesn't worry us”.

Here is a choice of restructuring which is implying neither plant downsizing nor job losses. In addition, such employers are aware of the social role they carry out:

“It has been a precise choice. We don't want and won't penalise our workforce. We really believe that it is highly qualified and this is a great advantage, we can't miss these opportunities”.

The industrial culture symbolised by these companies goes with an awareness of the marginal attention paid by local authorities to company needs. In my conversations with the 'enlightened' managers, a recurring story was one of an everyday struggle against a

heavy, often blind, bureaucratic apparatus, unable to provide the areas with basic infrastructure or even to enhance investment projects that could favour productive and employment expansion. Certainly, their privileged relations with ‘quality’ buyers help them to overcome many of these problems. However, some recognition is given to efforts by the CNA to promote initiatives expected to improve ‘intangible assets’, such as the feeling of trust and co-operation, in a sector dominated by competition, mutual distrust and, in general, by a productive isolation.

5.15. Prospects at the end of the period of restructuring

The current period of restructuring affecting the Brindisi’s clothing industry will not leave the profile of the sector in the area unchanged. First, Brindisi and other Western clothing areas are expected to be further penalised by the implementation of policy measures towards the elimination of trade barriers for imported products¹²⁷ (Il Sole-24 ore, 10-07-1999) (table 5.10.).

Table 5.10. Markets whose accessibility is increased by the full application of the Uruguay Round Agreement

Textile and knitted goods		Textile products	Clothing
EU		EU	EU
South Africa		South Africa	Canada
Australia		Canada	Japan
Canada		New Zealand	New Zealand
Japan		USA	Bolivia
New Zealand		Bolivia	Colombia
USA		Colombia	Peru
Bolivia		Peru	Uruguay
Colombia		Uruguay	Malaysia
Peru		Philippines	Philippines
Uruguay		Thailand	Thailand
Malaysia		Egypt	Egypt
Philippines		Tunisia	Tunisia
Thailand			
Egypt			
Tunisia			

Source: NOMISMA 1995, adapted from De Rubertis, 1998

¹²⁷ In 1998, Europe promoted the liberalisation of trade barriers with the former Soviet satellites countries, while an even greater impact is expected from the Uruguay Round Agreement which foresees the dismantling of all trade barriers by 2005 (Ministero dell’Industria, 1997).

Subcontracting companies are likely to suffer the most. According to a survey conducted by the CNA, “35% of subcontracting companies is at risk [nationally]”, as they are the last link of the productive chain. Then, certain buyers will re-internalise some of the phases of production previously subcontracted to reduce their fixed costs (Il Sole-24 ore, 14-05-1999). Second, a slow down of orders for southern companies will occur while their major competitive advantage, the low cost of labour, progressively reduces (Provincia di Brindisi, 1999). This is the outcome of a controversial agreement signed in 1994 between the then Italian budget Secretary, Pagliarini, and the then European Commissioner for Competition, Van Miert. By removing the system of financial discounts (in the form of lighter indirect costs of labour) benefiting companies located in southern Italy, the agreement is leading to a sharp rise in costs of labour in presence of unchanged locational and economic disadvantages¹²⁸.

Paradoxically, employers and many local economic observers believe that the ensemble of circumstances that are challenging local economic stability might turn positively for the industry. They will sweep away the area's least efficient and profitable companies while consolidating the most reliable economic units. It is expected that many local cost producers, whose competitive lever lies in the cost of production, will not be able to face the competitive pressure from low labour-costs countries. They will be penalised both by the relatively higher costs of labour locally and by the de-localisation move that more structured companies have started in order to enter the least sophisticated segments of the clothing production. Squeezed by this double trend, these companies are likely to end up in the hidden segment of the local economy where their existence will be subject to an inconstant and a marginal demand. A different trend is likely to affect more consolidated companies; for them the current phase of restructuring will certainly imply the definition/re-definition/consolidation of their product and market strategies. One aspect of this process concerns the type of production. The qualitative increase in the gross production to be offered to buyers or to be put directly on the market is the widely recognised strategy to escape from the ‘cut-throat’ competition involved by mass production. In doing this, therefore, local companies are entering niche segments of the clothing market which, whilst lowering the competitive pressure, could also lead to the achievement of a certain autonomy from external buyers.

¹²⁸Refer to the recently published report by the Provincia di Brindisi (1999) for a general picture of the economic and industrial conditions of the area.

Another dimension which is likely to suffer from a re-configuration in consequence of the on-going transformation is the organisation of production. To reduce the fixed costs connected to the management of stocks in the warehouses, buyers and traders are not buying great batches of goods, two or three times per year as before, but they are purchasing small batches of products which may differ from one time to another (Provincia di Brindisi, 1999). Consequently, orders are becoming more frequent and irregular, requiring a greater elasticity of the productive processes and a quicker supply. This transformation of the sector has generated many positive expectations. Obviously, many problems remain unsolved and many weaknesses (e.g. the lack of a productive filiere or a greater inter-firm co-operation) slow down the opportunities of a sector that, according to the local CNA officer, “could do more and that doesn’t”. Nonetheless, after all, the industry in Brindisi is believed to benefit from two major advantages when compared to many developing areas. First, the quality of the local workforce is not comparable to the one existing in central Europe or North Africa, although the latter is increasing also as a consequence of the training they are receiving from Western companies. Second, although not requiring capital investment, the shift of production implies high costs of access (Viesti, 1998) and is undoubtedly a sub-optimal solution for buyers or traders that necessitate small batches of production in a short time. ‘Remote de-localisation’ and ‘outwarding processing’,¹²⁹ seem therefore to play in favour of the local industry.

Moreover, Brindisi’s companies are benefiting from a legislative instrument that is practically having a counterbalancing impact on the cost of labour. It deals with a specific, territorial-based, agreement, implemented to favour the emergence of irregular companies. The ‘graduality contract’, signed in 1991 by CNA, the local trade unions and the association of employers is intended to favour the progressive up-grading of employment standards and levels of wage of the local clothing companies operating in the hidden economy or irregularly to the ones defined by the national sectoral contract. The latter was suspended in all the provincial territory for a period of four years. Companies that adhered to the re-alignment contract corresponded at the beginning of the period 75% of the salary established nationally. The full amount was going to be gradually reached in a period of four years. All the previous irregularities for these companies were cleared. The agreement was suspended in 1994¹³⁰ and

¹²⁹ Remote de-localisation usually refers to the shift of production in non-European countries, such as Mauritius, Sri Lanka, etc. The outward processing implies that part(s) of the production is (are) made in low-cost countries but assembled in Italy so to assume the ‘Made in Italy’ denomination.

¹³⁰ Those that had signed it acknowledged that a series of negative conditions had consistently worsened local companies convenience to subscribe it. It has been reckoned that from 1996 the cost of labour has increased by 34% (Provincia di Brindisi, 1999).

re-negotiated in 1996 (table 5.11.) and in 1998 with the definition of 2002 as final date for the achievement of the full correspondence of the local level of wage to the national one. Although attuned to the economic, social and productive conditions of the area, to date the contract has been signed by less than half of local clothing companies.

Table 5.11. Percentages for the re-alignment of the Brindisi's clothing sector to the retribution established by the national collective contract

1\07\1996	65%
1\07\1997	70%
1\01\1998	75%
1\07\1998	80%
1\01\1999	85%
1\07\2000	100%

Source: Official provincial agreement, 1996

5.16. Conclusions

It has been the contention of this part of the chapter that Brindisi’s clothing industry is currently undergoing a deep process of restructuring involving a large number of productive units. Driven by a heightened international competitive pressure, the process of adjustment has assumed a variety of forms in which the cost of labour assumes a diverse importance. In addition, only some of these processes of restructuring have impacted on firm employment level, leading to the reduction of their workforce base. Redundancies in the clothing industry of Brindisi are the outcome of two different dynamics. In the hidden segment of the local economy, job losses are generated by demand-side fluctuations: the lack of orders for local producers leads to the shrinking of the workforce base that expands when an upward phase of the market favours the company again. In the formal segment of the economy, job losses have resulted from the de-location of a very few companies towards developing countries aiming to reduce the costs of labour. I have argued however that such trends concern a marginal number of productive units.

The vast majority of local firms have undertaken paths of adjustment based on longer-term prospects. I have also maintained that choices of restructuring are influenced by the ensemble of social relations and ways of thinking constituting a company’s culture. By analysing a

specific aspect of the local industrial culture, that is the relations between capital and labour, I have shown that in the absence of sedimented values binding employers and workers or in the presence of conflicting internal dynamics, companies are unable to mobilise those intangible resources enhancing 'more demanding' processes of adjustment than the mere cost-cutting strategy. Conversely, the organisations displaying both formal and reciprocal forms of interaction between employers and workers seem to have been more able to undertake longer-term strategies of growth. Their capacity to offer high quality products or additional services is believed to attract external orders from buyers for which the de-localisation remains a sub-optimal solution.

5.17. General conclusions

This chapter has provided an explanation of the processes of redundancies and restructuring currently affecting the chemicals and clothing industries of Brindisi. The 1990s have represented a period of profound restructuring for both of them. I have argued that, as a consequence of the changes occurred at the macro-economic level and in the institutional context and affecting in particular southern Italy, both industries have been called to face the same issue of efficiency and cost-effectiveness. Nonetheless, the reaction to change in the two industries and within the same industry has manifested itself into a variety of ways. Divergent processes of adjustment have been undertaken, expression of unique economic evaluations and of the variety of social influences, internal and external to companies, that shape economic action. Such contentions undermine therefore current dominant interpretations on the theme. The role of the cost of labour as the major driving force for processes of corporate adjustment and the inevitability of job losses connected to them seem to be strongly denied by the empirical evidence gathered in Brindisi. Further, the neglect concerning non-economic factors heavily compromises the capacity of these stances to grasp the complexity of real economic phenomena.

The presence of the chemicals industry in Brindisi responded to the national political economy of the 1960s and 1970s pursuing the objectives of the industrial development and modernisation of the area. It is with the modification of its original objectives, for the creation of employment opportunities and for the support of incomes, that the industry performance started to be compromised. In particular, the systematic influence of political parties on

capital–labour relations, through the twofold co-optation of management and trade unions, altered the traditional regulation of the employment relation. This did not respond to the competitive dynamics between capital and labour but rather to political determination. At the beginning of the 1980s, the combination of local, national and international factors created the conditions for the restructuring of Montedison which implied downsizing and redundancies. During the 1990s, job losses have occurred because of company intensification of the pace of technological innovation and of internal re-organisation; in addition, a means to gain cost-effectiveness is consisting of the re-composition of its occupational base through the substitution of older workers with their sons. This is entailing a rise in productivity and the reduction of labour costs. Such a transformation is a quiet one as it is producing no net job losses. Also for this reason, it is taking place with unions' consensus which reflects worker willingness to maintain job opportunities in the area although with modified employment prerogatives.

Affected by the pressure of international competition, by the change in national industrial policies and by local measures aiming to strengthen the industry in the area, the clothing companies in Brindisi have displayed a variety of adjustment paths. I have shown that redundancies have been marginal and connected to the cost-cutting strategy of a few large companies that have de-localised part of their production to low labour costs countries. I have also maintained that a large segment of companies have opted for longer term adjustments, centred upon quality improvements, the search for new channels of distributions and process innovation which are not involving the reduction of the workforce base. Company diverse structural features explain the diverse nature of the processes of adjustment undertaken; nonetheless, these have also been profoundly influenced by the existence of specific industrial cultures.

Chapter 6 – The regions compared, and theoretical reflections

6.1. Introduction

This chapter compares the two regions, and in the second half, returns to the theorisation of industrial redundancies. The two previous chapters have examined in details the complex restructuring processes involving the chemical and clothing industries of the two areas as well their main productive and employment implications (see table 6.1. for a summary). This chapter instead focuses on explanatory variables behind redundancies and restructuring and their linkage with the theoretical framework outlined chapter two.

In Part one, I argue that the nature of relations between local producers and external buyers, and the cyclical trends of international markets may be considered as the most relevant sectorally-related conditions explaining redundancies in Teesside and Brindisi. But, in contrast to market-centred analyses, which contemplate the convergence of corporations towards a uniform and universal form of restructuring, I show that the response to similar economic pressures has been different in the two areas. By focusing on the relations between capital and labour and on the institutional environment in which they are embedded, I reveal how place-specific features, expressions of social and historical practices, contribute to current redundancy processes in the two areas. Part two relates findings on restructuring and employment change to the streams of thought reviewed in chapter two. The understanding of such processes as institutionally constructed and as such geographically situated contributes to the debate on a theme that has for long time been dominated by economicist conceptualisations, which have proved unsuccessful in interpreting job losses as well in addressing the problem also from a policy perspective.

Looking across the two sectors in the two regions, four factors have emerged as the main causes leading to redundancies and industrial restructuring (table 6.2. summarises the analysis). Much of the current literature on the theme, as reviewed in chapter two, emphasises the primary role of economic factors. The potential variables identified by theory span from the cost of labour and the cyclical nature of competition and growth, to the role of technology and the intrinsic features of the prevailing economic arrangements.

Table 6.1. Summary of the processes of restructuring on Teesside and Brindisi

	TEESSIDE	BRINDISI
	Chemicals	Chemicals
	Clothing	Clothing
Forms of restructuring	Business re-positioning: from heavy to light chemicals; Change in the employment relation	Technological innovation; work re-organisation; dis- investment; change in occupational mix
Management of redundancies	No compulsory redundancies; re-deployment; self-offs; subcontracting	Corporatist; income support through CIG; defensive soli- darity; substitution programme
New productive and labour relations	Inter-firm integration; vertical disintegration of production	Multinational companies; locally-owned companies; subcontracting
	Core/ periphery workforce: sta- bility v vulnerability	Qualitative improvements consolidation; inter-firms co-operation
	Example of team-work	

Table 6.2. Sectorally-related and place-specific causes of redundancies and restructuring in the chemical and clothing industries of Teesside and Brindisi

	CHEMICALS INDUSTRY		CLOTHING INDUSTRY	
	Teesside	Brindisi	Teesside	Brindisi
Productive decentralisation	Subcontracting: core v peripheral companies	Integrated processes of production; subcontracting	Buyers-producers relation: re-location	Buyers-producers relation: re-location
International competition	Business re-organisation with plant closures, sell-offs, business swaps	Technological innovation; work re-organisation; disinvestment; costs reduction	Mediated by buyers	Mediated by buyers
Capital and labour relations (corporate culture)	Paternalism; wage and benefits linked to profitability; unions and workers' consent	Corporatism; defensive measures; income support measures	Conflicting; displaced employers v marginal work-force	Pacts of temporary convenience (mutual benefits); conflicting Consolidated: mutual commitment
Institutional configuration	Centrality in the local economy; TCI activity; ICi's role	Centrality in the local economy; corporatist	Marginality in the local economy; inter-firm co-operation; no common services	No Defensive measures; graduality contract; CNA activity

In particular, the difficulty to rationalise and minimise the cost of labour has become the prevalent interpretation of job losses. The other common element to all these conceptualisations is that companies and other social actors are reserved a passive role in the course of events whose impact on employment is deemed inevitable. Different insights are provided, however, by some preference models. In these views, certain dimensions characterising company internal relations, such as workers' control, relations of trust, reduction of conflicts, influence industrial unemployment.

Two main aspects emerge from the evidence from the two industries in the two areas. First, the evidence shows how institutionally embedded relations are important co-explanatory variables of the processes of change: symbolic relations and institutional set-ups affect company knowledge as well adjustment options. Such conclusions lead to the re-evaluation of the institutionalist interpretations which, despite holding a marginal place in the panorama of current analyses on industrial unemployment, shed light on the central role played by institutions in its understanding. Second, employment and industrial change in the two industries of the two areas are solicited by factors of different origin that overlap so that no linear relation of cause and effect can clearly be indicated.

Part 1- Sectorally-related and place-specific causes of redundancies

6.2. Productive decentralisation

6.2.1. The clothing industry

Both the clothing industry of Teesside and especially of Brindisi are part of a flux of productive decentralisation or vertically integrated with buyers. Thus, whilst subcontracting is allowing clothing to exist in the two areas, the nature of productive relations concerning local companies and external buyers has emerged as a principal factor in determining job loss in the clothing industry of Teesside and, to a lesser extent, Brindisi. This is for a series of reasons. Local industry is relegated to the most labour intensive phases of the production process; the most high value-added phases, usually connected to the commercialisation of products, are reserved to buyers. This means that local industry lacks the capacities to widen productive horizons to other spheres of clothing production, especially to important phases that are upstream and downstream the productive process itself, such as design or commercialisation.

From a financial perspective, such production relations prevent local producers from seizing opportunities along the value chain. Additionally, it is the buyer and not the producer to define the price of both intermediate and final products.

Yet, the subcontracting nature of the industry does not affect the economic dimensions alone. It impinges directly on both the material and social practices that come to define the culture of a specific company. Buyers are important agents in influencing decisions about investments and the links that local producers entertain with them, involving relations of trust, certainty of behaviour, represent a primary source of embeddedness. Indeed, it is the network of relations with other firms more than the one with local institutions that shape productive activity. It follows therefore that the level of profitability is highly dependent on the relationships with buyers. This represents a framework of relationships that is not only of economic nature. Clothing producer sensitivity to the cost of labour, thus, reflects buyer strategies. For instance, the preference of *fashion houses* to quality products usually reduces the sensitiveness to price.

What has emerged on Teesside and Brindisi is that the form and speed of restructuring undertaken by local companies have been mediated by and widely shaped by the production relations in which they are involved. The investigation of the nature of the relationships between buyers and producers provides a robust explanation of corporate actions (e.g. adjustment strategies) as well as culture (e.g. the values underlying economic action). Furthermore, it is the modification of the previous 'buyer-producer' relationship under the effect of the competitive pressure brought about by low labour cost countries that has urged the process of restructuring of local industries. Specifically, redundancies on Teesside and in Brindisi have resulted from a reactive strategy by certain local companies to shift production abroad to answer buyer requests for good quality products at competitive prices. The type of productive relation in which companies are locked gives buyers the power to decide the price of products and, indirectly, the cost of production. In turn, buyer strategy has been influenced by the growing trend towards the internationalisation of production to take advantage of the spatial differences in the costs of the factors of production.

However, comparing the scale of restructuring and job losses in the two areas, I suggest that uniform trends affecting the sector internationally are being mediated by distinctive place-specific economic arrangements. On Teesside, the profit squeeze suffered by local companies, leading to large scale redundancies, has been amplified by the existence of an oligopoly of

retailers who control the market where a plurality of producers compete to supply them. Teesside's main clothing producers have limited margins of manoeuvre as they are totally subject to retailer whims. Secondly, the rise in the quality of clothing products from the newly industrialised countries, at competitive prices, has swept away Teesside's competitive advantage. In Brindisi, although exposed to the same cost-based competition, employment in clothing has suffered much less. First, the sector is differentiated. Accordingly, only cost-based producers appear to be much more exposed to cost-cutting strategies. Second, the quality of the production is of medium level; therefore, the vast majority of local productive units have maintained their appeal for buyers.

6.3.2. The chemicals industry

The diverse nature of the production cycle in the chemicals industry, an integrated process, makes the relevance of inter-firm relations less important in explaining redundancies in Teesside and Brindisi. However, whilst not a direct factor leading to job losses, the account of the relations of production emerged after ICI's product restructuring is relevant for understanding the transformation of employment conditions in the sector. The choice made by ICI to concentrate on core businesses has led, on the one hand, to a greater diversification of chemicals production on Teesside, given the arrival of an array of new producers, and, on the other, to an expansion of the number of subcontracting companies, due to the outsourcing of almost the totality of services. The current division of labour in the area is centred around a core of chemicals companies, surrounded by quality subcontractors with which they entertain privileged relationships as they provide them with specialised services such as engineering or training. Relationships with the circle of lower quality subcontractors, involving maintenance, cleaning and catering activities, are instead characterised by volatility. The most visible effects of such a re-organisation of product relations has been the reduction of the cost of labour and extensive control over subcontracting companies.

ICI's restructuring has profoundly impinged upon employment conditions of the sector which, in contrast to the past, are now dominated by flexible and temporary work arrangements. Progressive concentration on core activities undertaken by local chemical companies has paved the way for the substantial segmentation of the labour market into a core and peripheral segment. Accordingly, advantageous and stable employment contracts are being offered to a shrinking number of workers, whilst the employment conditions of the workers engaged into

subcontracting activities have worsened. The harsh competition among subcontracting companies to obtain and protect contracts from the chemical companies has led to a compression of the costs at which services are provided. To meet competition which is increasingly being based on prices and time of delivery, subcontracting companies have made growing use of non-standard contracts and flexible work arrangements which are allowing them to consider the cost of labour as a non fixed-cost. This has brought the deterioration of wage levels as companies are often able to recruit informally and of employment conditions as flexibility often means intensification and vulnerability of jobs. In summary, whilst it is true that the process of outsourcing has preserved a large amount of jobs once held in-house, this has been achieved through a substantial attenuation of labour prerogatives.

On a substantially smaller scale, in Brindisi too there is evidence of subcontracting aiming to reduce the fixed nature of the cost of labour. Even in this case, outsourcing has entailed the reduction of worker prerogatives. The impact of such a process is however limited. It has involved only EniChem and a few other companies that had adopted, at the beginning of their productive life, a vertically integrated system of production, and it concerns only some service activities. The younger, companies had already adopted organisational system satisfying more cost-effectiveness solutions.

6.3. International competition

6.3.1. The chemical industry

Restructuring processes and associated job losses in the chemicals industry of Teesside and Brindisi are closely influenced by changing international markets. It is widely acknowledged that the industry, especially heavy segments of the production, is cyclically affected by profitability crises. These are mainly determined by the periods of restructuring and downsizing that follow the phases of expansion and accumulation that lead to the semi-permanent problem of over-capacity (Chapman, 1991; Financial Times, 1997). Specialised in heavy chemicals, both Teesside and Brindisi suffered from the backlash of the crisis that hit the industry already after the mid-1970s. The two oil shocks and the entry of new producers, eroding the technological edge of many European chemical companies, compromised the performance of chemicals companies of the two areas. Their responses to a common problem however have been diverse. On Teesside, redundancies derive from the modification of the

business specialisation of the major company of the area. In Brindisi, they are mainly related to the labour saving effects of technological innovation and organisational changes.

Teesside has substantially modified its productive profile following ICI's decision to move away from heavy chemicals production towards commodity and, then, speciality chemicals where the technological edge constitutes an important obstacle to extensive competition. This is consistent with ICI's new strategy to reduce business vulnerability and to ensure more adequate levels of profitability. The business re-orientation has implied the closure of some plants, the sell-off of marginal businesses, and business swaps to acquire new activities and market shares. This process of restructuring has been synonymous with layoffs and with a series of other measures that have coincided with the termination of employment in ICI.

In Brindisi, the response to international pressure has centred upon the intensification of technological innovation. The major local companies have engaged in plant renewal as well the adoption of new methods of production through joint ventures with foreign companies, also to reduce competition in certain markets. Both strategies have increased plant capacity as well the overall improvement of quality. Other local companies have implemented organisational changes leading to redundancies. The second major step taken to maintain competitive levels at the international level has been the overall reduction of costs which has been achieved essentially through an increase in labour productivity. In Brindisi, redundancies have been managed through early retirements and a progressive substitution of older workers with younger and more qualified personnel, whose greater general knowledge has been deemed to positively impinge on productivity performances.

6.3.2. The clothing industry

Like the chemicals industries, the clothing industries of Teesside and Brindisi are being exposed to international competitive pressures. However, the analysis of the implications of international competition on employment dynamics in the two areas requires a distinction between the macro-level and the micro-level. The impact of macro-economic trends on the two industries has been consistently mediated by the system of relations in which local companies are embedded (see previous section). Buyer definition of productive and commercial strategies represents the framework in which supplier decisions are made: it

constitutes the primary source of constraints and opportunities shaping supplier options for restructuring.

At the aggregate level, it is undoubted that the clothing industry has suffered from a radical re-configuration. The pressure from low labour cost countries, which have flooded the market with cheap products whose quality is constantly improving, has led to the internationalisation of production. The impact of these dynamics on local companies has depended on the system of relations in which they are embedded. This explains the variety of restructuring processes undertaken as well as their diverse effects on employment. In certain cases, qualitative adjustments have been implemented to enter niche productions which have often preserved the employment base; in others, companies have preferred cost-cutting strategies or the shift of production to more convenient locations from a cost perspective, and, therefore, leading to job losses locally.

6.4. Capital and labour relations and corporate culture

As I have shown in the case study chapters, the strategies of the chemicals and clothing companies of Teesside and Brindisi to recover profitability have not responded to universalistic patterns but have appeared to be rather heterogeneous. Similarly, I have maintained that employment change, specifically job losses, are only one of the possible consequences of industrial transformation. In this section, I argue that an important explanation of the variability of industrial restructuring and employment change lies in corporate culture, which creates the situated knowledge defining the company itself and framing the definition of its economic objectives and the way in which their are pursued, and, specifically, in the relations between capital and labour.

6.4.1. The chemicals industry

The case of the chemicals industry on Teesside clearly illustrates how the employment relation, hinging upon a unique construction of the relationship between capital and labour, became a key variable in ensuring economic success in a specific period, but also how it shaped the downsizing of the employment base and the modification of work practices when the economic scenario changed. The genesis of the industry in the hands of ICI created the conditions for particular capital and labour relations to be established. Indeed, Teesside's

chemicals culture was reflection of ICI's paternalistic model of industrial relations, characterised by harmonisation and joint regulation of employment relations and those beyond the workplace. In particular, formal and tacit agreements established a system of employment practices tying wage and benefit increases to the profitability of the company itself.

The modification of the macro-economic picture during the 1970s and 1980s had a major impact on ICI's configuration of employment relations. The end of the period of intense accumulation compromised the company's micro-economic equilibrium. Its profitability started to decrease and ceased to be ensured by a wide business portfolio. Previous employment practices became unsustainable. Furthermore, the business strategy implemented to recover from profitability loss and centred upon the specialisation of production, revealed the incompatibility of employment practices connected to the previous organisation of production. It can be argued therefore that the type of restructuring process implemented and the impact of employment change in the chemicals sector on Teesside find in such practices a major explanatory factor. The existence of place-specific employment relations, the legacy of sedimented social practices, explain the management of dismissals as well union and worker attitudes during the process of industrial adjustment. Compulsory redundancies were limited in numbers, while the company encouraged voluntary retirements. It also sold many of the businesses that were becoming marginal to its new business strategy. Both the effective demise of the ICI presence on Teesside, and the modification of the employment relation went uncontested. This is because the traditional fit between worker well-being and company profit had led, on the one hand, to the reinforcement of ICI's power in the decision-making process and, on the other, to the weakening of the labour movement as the climate of consent was never compromised by possible confrontation.

The pattern of restructuring of the chemicals industry in Brindisi has been characterised by company implementation of a combination of adjustment strategies whereby profitability has been achieved, for instance, by coupling the intensification of the pace of technological innovation and the adoption of new organisational models. The impact of these processes of restructuring on the employment base of the industry has been much softer. Local companies have been engaged in gradual employment adjustment strategies aiming to minimise labour disruption. Reduction of overtime work and bonus, functional and time flexibility, as well voluntary retirements and a programme of substitution between fathers and sons, have all

been means to search for an internal solution to redundant personnel and to avoid the termination of the employment relation. The search for an alternative to axing jobs finds an explanation in the corporatist model of governance characterising industrial relations in the industry. Decision-making involved negotiation between capital and labour, with the mediation of public institutions. The level of independence of chemicals companies in Brindisi with concern to decisions and management of redundancies has been diluted by the bargaining with trade unions and other local, sectoral, organisations. Moreover, the negotiations between local unions and managers have occurred in a legislative framework which protects employment, through plant level solutions to avoid dismissals, and discourages layoffs, through a variety of alternative measures. It is precisely the existence of these practices influencing company decisions that explains the menu of choices and strategies implemented by Brindisi's chemicals companies.

6.4.2. The clothing industry

The salience of company practices, as spatially and historically rooted social constructions, has been relevant also for the clothing sector in Brindisi. The industry in the area offers a clear example of polarised economic behaviour among companies responding to the same macro-economic scenario. Company culture, defining primarily the relations between capital and labour, constitutes a major variable in driving restructuring processes and job losses. Accordingly, redundancies are occurring in those companies where the relationship between employers and workers is conflicting or problematic, and the expression of a pact of temporary convenience. On one side, there are employers who, by choice or because they lack adequate professional and financial resources, are engaged in cost-cutting which prevents them from investing in long-term business prospects as well in human resources. On the other side, there are workers who accept the low level of wage offered in absence of any alternative opportunity in the local labour market. Because of the instability of the internal relationship, these companies lack collective values, or a culture of work to be mobilised to respond to change. By contrast, qualitative and jobless adjustments have occurred in local companies that have managed to consolidate internal behaviours and work practices. These companies are characterised by a stable business activity which ensures also the stability of workers' employment. Both elements contribute to sediment practices and relations of work that have a great influence on company strategies as well as on their change.

On Teesside, the reactive nature of the restructuring path undertaken by the major local producers, consisting of a partial shift to low-labour cost countries, reflects, I argue, a prevailing corporate culture that has circumscribed company options for change. Accordingly, the subordination of the local entrepreneurial class to external buyers through the years has affected both the decision-making process concerning their business activity and the appropriation of consistent shares of surplus. Decisions concerning the quality of products, their price but also technical innovations and other investments in the company reside externally. Indeed, they coincide with buyer productive and market strategies. With the modification of buyer strategies and especially, their decreasing commitment to local companies, the latter have found themselves confronted with a series of new problems to which their culture of dependency has allowed simply accepting buyer demands. At the same time, because of the hard conditions of work and low levels of wages, the women who have traditionally worked in the clothing no longer wish to do so. This is compromising the low-cost option. The industry is trapped in a vicious circle: the lack of workforce commitment is mirrored in a company neglect of the centrality of labour despite the labour intensive nature of the industry.

6.5. Institutional configuration

The investigation of restructuring on Teesside and Brindisi has provided evidence also of the role of institutional configuration on strategies of adjustment. As sets of interrelated instrumental (e.g. laws, system of education, training, company governance structure, etc.) and symbolic practices (cultural rules, routines, etc.) or organising principles available for organisations, institutions frame company choices. They influence, on the one hand, economic rationality (in this case, the interpretation of the cost of labour) and, on the other, the restructuring options that are conceived sustainable in the context in which they take place.

6.5.1. The clothing industry

The process of harsh restructuring in the clothing industry on Teesside illustrates how the set of instrumental practices available to local companies and local policy makers explain their decisions about restructuring paths. The sector lacks not only a basic system of inter-firm relationships but also of the ensemble of common services that enhance a local industrial

system such as training schools, design units, etc. The climate of competition that characterises relationships between companies adds other costs because of external diseconomies characterising the sector. Second, the sector is embedded in a wider institutional context which has traditionally seen the clothing industry as a marginal one in the economy. The recession that has recently hit the industry has unfolded in a climate of disinterest, impotency and resignation. The institutional vacuum present on Teesside has substantially constrained company choices. Indeed, in such a situation, change has been neither anticipated nor turned positively. Finally, the drive towards the re-location of production, that has become the prevailing adjustment process undertaken in the area, has been partially favoured by national economic policy. The strong pound has encouraged re-location.

In Brindisi, the institutional set up has been different. Clothing companies in Brindisi have showed different trajectories of restructuring and the reduction of jobs has been limited. First, companies have benefited from national employment legislation to face temporary crises. Measures allow the shortening of working hours or the reduction of the working week, before proceeding to the dismissal of workers; more importantly, companies and workers are protected by the special measures provided by the legislation on productive crises (ordinary or extraordinary CIG): redundancies are avoided as workers are entitled to receive income protection from the State (80% of wages up to a year). In addition, the contract of graduality, signed by local trade unions and employers associations, has been fundamental in helping local companies to respond to change by keeping the cost of labour lower than the national level. Then, thanks to the work of the CNA, some examples of inter-firm co-operation have emerged to partially limit its reliance on the subcontracting.

6.5.2. The chemicals industry

The chemicals industries too show that the presence of formal organisations and the existence of more subjective and symbolic aspects connected to the spatiality of economic activity play a salient role in explaining company options about restructuring processes. Although the number of jobs axed by ICI has been remarkably high during the phase of its restructuring, it is commonly acknowledged on Teesside that the impact of employment change could have been much greater if ICI had not pursued a careful policy of business re-positioning in recognition of its historical role on Teesside and if the action of sectoral organisations such as the Teesside Chemical Initiative (TCI) had not been incisive. There is little doubt that ICI's

restructuring process has been profoundly shaped by the formal links as well by the tacit conventions that the company established. Sell-offs and swaps were favoured, while initiatives to attract other chemicals multinationals on Teesside were implemented so as to preserve the production capacity of the area. In addition, although subcontracting virtually all its service activities, ICI ensured the new companies the maintenance of orders for at least one year.

In Brindisi, the corporatist nature of the local institutional set-up, where unions and other local institutions intervene in company decision-making processes, constitutes the framework in which the chemicals industry has restructured. Local companies have terminated employment contracts with their workers in only a limited number of cases. Instead, they have used alternative measures to seek the least disruptive steps to cut costs. As a consequence, one has witnessed the reduction of overtime work and bonuses and, especially, the encouragement of voluntary retirements. All this responds to a logic whereby employment change is addressed, managed and sustained by an institutional configuration which, in general terms, discourages large-scale layoffs.

6.6. Conclusions

The interpretation that has dominated the debate on industrial unemployment relates company profitability to the cost of labour. It contends that wage and employment rights during recession represent the main obstacle on company profitability. It follows that wage flexibility and lower wages are necessary to avoid profitability squeezes.

The results challenge this argument. There is no doubt that, under conditions of perfect competition, efficiency is the result of an economic use of resources and that the most efficient firm is the one that earns the highest revenue per unit of output. In reality, however, firms need to respond to diverse influences so that the goal of costs minimisation is not always the primary one. As we saw, profitability is a relative measure rather than an absolute one. It does not diverge simply between sectors but also between companies. Companies pursue different forms of efficiency in response to different sets of possibilities and external constraints. The market in which companies operate and their strategies in it represent, for instance, a primary source of profit making or squeezing. Profit varies also in relation to space

and time. Yet, rather than being ensured exclusively by economic factors, it may depend on the unique construction of social practices that identifies a corporate culture.

The emphasis on the link between profitability and low levels of wages is a historically contingent argument. Indeed, it is only at the beginning of the 1980s and, more emphatically during the last decade, that the theoretical and policy argument has sprung according to which corporate performance has been connected to supply-side factors and, in particular, to the levels of wages. This is in contrast to the prevailing economic strategy pursued by corporations in the previous two decades. The phase of intensive demand-led growth, benefiting company accumulation process, was based on a system of social and employment relations that coupled the possibility to maintain an intensive pace of growth with the existence of high standards of employment conditions and wages. For almost three decades, ICI on Teesside represented the model of Fordist company favoured by the growth of the chemicals market and, more in general, by the expansion of demand. This allowed it to achieve consistent levels of profitability and to ensure the expansion of its internal market where workers benefited from good employment relations. It is with the slow-down in economic expansion and the saturation of markets, which did not require extensive growth anymore, that the profitability came to be defined and pursued differently, namely through the flexibilisation of production processes as well as of employment relations.

Yet, despite the demise of such a model, the concrete behaviour of companies in the search for profit tends to follow specific paths that do not respond to abstract theoretical laws but to punctual market evaluations. In the chemicals sector, for instance, companies engaged in the heavy segments of the production are more exposed financially and economically on the cyclical trends determined by international competition than the ones that operate in the light end of the production. In the clothing industry, niche production is ensuring wider margins of profit than mass production. Accordingly, certain companies may find it profitable to set or maintain the levels of wages higher than the market clearing level, depending on an array of circumstances spanning from macro-conditions in which they operate, to market strategies or to their internal dynamics. An adequate explanation of the link between profit and wage should also consider company strategies, opportunities and constraints that, in a specific time and place, contribute to the definition of determined financial and economic performance. In certain segments of clothing industry in Brindisi, the standardised nature of products calls for reducing unit costs; hence, company profitability is connected to their capacity to reduce the

share of labour costs in value-added, to substitute capital for labour and to maximise labour productivity.

Only by considering the institutional nature of the wage relation and its changes over time, I argue, is it possible to account for the decisions undertaken by firms concerning strategies to either restore or maintain their profitability. Consistent with the position put forward in this work, falling profits are likely to be related to economic variables other than the cost of labour (e.g. the existence of particular productive relations) as well as to social factors (e.g. the inability to maintain a coherent economic and employment system). Similarly, the strategies to regain cost-effectiveness may also revolve around a plurality of factors. In addition, the claim that industrial restructuring induced by wage rigidity necessarily requires the axing of jobs does not account for the fact that corporate action is mediated by the culture it has developed internally over time and by the institutional framework in which it is embedded, consisting of the relations with other firms and local formal institutions. Such elements constrain company decisions on whether to undertake a process of restructuring or not and on the type of process to implement. It follows that organisational behaviour is never completely instrumental but responds also to symbolic dimensions. Consistent with this is the contention that space does not play a purely passive role in industrial change and redundancies. Rather, locations express physical and social features that are crucial elements in understanding the form of restructuring, the speed of the adjustment and the impact on the employment dynamics as they influence specific corporate actions.

Part 2 – Conceptualising ‘from below’

6.7. The complexity of a socio-economic phenomenon

What can we theorise about industrial unemployment from the evidence above? First, whilst in theory profitability is ensured through the cost minimisation, in reality choices about the strategies to maintain or restore profitability levels through processes of adjustment respond to a plurality of evaluations. Micro-economic appraisals concerning the dynamic of the factors of production represent the first elements that are considered in the decision on whether to undertake a restructuring process or not. Such a decision is, however, heavily affected by the specific macro-economic circumstances that, in a determined period and context, constitute the frame of reference for a company's actions. This might refer to immediate, local, economic dynamics or wider international trends; often, it is the combination of both. For

instance, the chemicals industry of the two areas examined provides examples of decisions of restructuring implemented to anticipate or respond to direct competitors on the international market.

Second, company change may revolve around a variety of variables. Profitability pursued through the reduction of the cost of the factors of production and/or a rise in the price of products goes with different forms of efficiency. Decisions on whether to intervene on the cost of labour may imply evaluations on expected future returns. Companies may decide, as in some Brindisi's clothing companies, to sustain heavier costs of labour today in order to achieve better results in the future. ICI's case serves to clearly point out that the link between profitability and levels of wages is not absolute. The economic history of the company demonstrates that a cost-effectiveness level is not incompatible with good employment relations.

Third, companies may choose to return to profitability by acting on non-economic variables. The modification of the institutions underlying company internal dynamics, especially, the relations between capital and labour, concretely affects performance. A plurality of examples emerge from the fieldwork whereby companies have modified the cultural values that were regulating their internal dynamics or influenced workers or other group preferences. Emblematic is ICI's re-definition of its model of employment relation or the application of the substitution programme in Brindisi.

The various aspects that I have highlighted above constitute a robust evidence leading to an interpretation of redundancies and restructuring as complex phenomena. The findings show that redundancies in the two sectors of the two areas examined are being driven by processes of adjustment solicited by sector-specific trends which exercise a deep influence on industries performance; likewise, it has emerged that the institutional relations in which industrial activity is embedded, an outcome of sedimented place-specific dynamics, play a salient role in influencing both the process of restructuring to be undertaken and the impact of employment change involved by it. It is apparent, however, that in many cases, sector-specific and place-specific dynamics exercise a combined influence on companies' decision about restructuring processes.

In the light of the reflections developed above, the reading of processes of industrial change and redundancies provided by some among the most credited strands of the neo-classical literature appears extremely partial (Bruno and Sachs, 1985; Layard et al, 1991, 1994; OECD, 1994; 1997). By maintaining that markets provide a spontaneous and natural order in which companies operate according to the most efficient solutions, such stances make *a-priori* assumptions about the nature and the existence of prevailing forms of economic rationality. The evidence presented above draws a different picture of processes of employment and industrial change. First, stimuli to corporate response are diverse and arise from the variety of possibilities and constraints connected to the organisation of production and the transformations taking place in the wider market; the mono-causal nature of the processes of adjustment is therefore denied. Second, companies adapt creatively to changes in their micro- and macro-economic conditions. Accordingly, restructuring forms do not assume homogeneous traits and cannot be defined according to *a-priori* taxonomies, whilst their impact on employment levels do not represent a necessary outcome of deterministic economic imperatives but constitutes a dimension in which companies retain wide margins of manoeuvre.

How can we theorise industrial redundancies more positively? Some of the findings lend support to some of the alternative macro-economic perspectives reviewed in chapter two as well to some efficiency wage models whose conceptualisations help to further deepen their analysis. As indicated in section, 6.3., international demand is an important factor in explaining job losses in the chemicals industry of Teesside and Brindisi. The insights provided by the Schumpeterian approach help to illustrate the way in which the cyclical nature of the business cycle affects employment level (Schumpeter, 1968; Dosi, 1982; Freeman et al., 1982). The cyclical character of the chemicals industry implies that it is characterised by phases of investment in productive capacity, followed by periods of over-capacity. Layoffs may occur in a down swing as companies close plants or restructure, or during an upswing when technological innovation, implemented either to respond to a rise in demand or to maintain a competitive edge on other companies, produces labour saving effects.

The Marxian tradition instead provides a convincing account of job losses involving the clothing industry of Teesside and Brindisi. Driven by the vertical integration of economic relations between producers and buyers, employment change in the two areas has resulted

from processes of adjustment centred upon the spatial division of production and labour. The determination of sectoral employment and unemployment dynamics and their characteristics are therefore the result of the way in which clothing companies are re-organising production over space to exploit competitive advantages connected with the costs of labour.

From a different perspective which, however, complements the above macro-analyses, the efficiency wage models that emphasise the social nature of preferences help to highlight the institutional arrangements affecting wage determination. The ICI case clearly illustrates that the type of business adjustment undertaken to regain profitability has responded also to a modification of the wage relation. This, by allowing among other things to offer better employment conditions than those set in the local labour market, satisfied the company's need to contain internal conflicts, in line with the Bowles model, as well to generate feelings of trust and solidarity with its workers as in Akerlof's view (1982; 1984). In certain clothing companies of Brindisi too, worker behaviour deriving from sentiments of trust towards their companies explains the form of adjustment undertaken, leading to a preservation of employment levels.

Each of the interpretations above provides a partially convincing account of the dynamics of industrial and employment change. First, by interpreting restructuring paths and job losses as the ultimate outcome of crises involving the economic and social systems, this literature fails to account for the role of individuals and collective agencies. The same limit, but for opposite reasons, relates to the efficiency wage models. This implies consequently to fail to account for the complexity of the phenomena under investigation which respond to mutual influences involving structures and agency. Second, each of these approaches has offered a partial interpretation of the phenomenon. This deficit is to be seen as a direct consequence of the partiality of the angle of investigation. The focus on specific aspects has produced fragmented analyses that, while contributing to an understanding of the phenomenon in relation to their departing point, have failed to recognise and highlight the interdependent nature of each of the dimensions identified.

Some findings confirm the emphasis attributed by institutionalist perspectives on the institutions of labour in the explanation of industrial and economic dynamics. The institutions regulating the relations between capital and labour have emerged as important variables in the analysis of the processes examined in this thesis. Accordingly, job losses in the chemicals

sector on Teesside have to be seen as the outcome of the transformation of the traditional employment relation regulating employment dynamics in the industry. Similarly, it is the conflicting nature of capital and labour relations in certain clothing companies of Brindisi and Teesside and the lack of any regulation of their employment relations to compromise the implementation of longer-term adaptive strategies.

6.8. The role of agency: companies and other socio-economic actors

My findings necessitate a finer approach of the role of agency. The focus on companies suggests their twofold theoretical status. On the one hand, and as conceived within orthodox economic literature, they are individual agents whose action represents the most important determinant of phenomena of industrial and employment change. On the other hand, they have emerged as collective agents in this study, epitomising complex economic and social dynamics shaped by the process of interaction between management, workers and unions, and expressed in the wage relation. The latter conceptualisation echoes with the old institutionalist tradition. More precisely, companies are the locus in which capital and labour relations occur. It follows that economic performance depends primarily on the relations between capital and labour.

Regulation theory and theory of conventions eclipse respectively the role of agency and the role of class relations. My analysis suggests that company material and social practices are affected also by the interests expressed in other collective organisations such as trade unions, organisations representing sectoral interests, as well as by worker individual preferences. In other words, the capital-labour dichotomy does not exhaust the multiplicity of collective and individual subjects and the inter-related nature of their constraints and opportunities that impinge upon both the way in which profitability is pursued through restructuring dynamics and the employment trends in and out of the workplace.

Some examples from the research illustrate this point. The heterogeneity of restructuring paths undertaken by clothing companies in Brindisi have to be related primarily to the type of internal relations distinguishing local companies. Differences in the mutual commitment between workers and employers have become a discriminating factor in the explanation of choices concerning how to read change. Then, the action of sectoral trade unions, mobilised to

encourage companies to subscribe to the graduality contract, and the CNA's promotional initiatives have widened company adaptive opportunities.

Also the dynamics of the chemicals industry in Brindisi clearly show how actor specific interests have been influential. The corporatist model regulating the employment relations has ensured least disruptive solutions for employment, seconded by both workers and trade unions. The enhancement of redundancies, producing no net job losses, has been accepted by workers in a local economic context which, unable to create an adequate number of employment opportunities, constrains their choices.

On Teesside, the role of TCI, which has been active in the promotion of the attractiveness of the resources and infrastructures of the area, has been important in influencing employment prospects. ICI's ability to honour the social pact with the community and avoid the enforcement of a limited number of compulsory redundancies has been possible as other chemicals companies, wishing to exploit locational advantages, settled in the area.

The perspective on agency advanced in this study, therefore, distances itself from economic analyses as it accounts for the role of firms and other collective institutions in economic dynamics. Processes of industrial and employment change are explained by looking at the actions and strategies of individuals and groups reflecting their heterogeneous interests, opportunities and constraints. Specifically, the account of spatially- and historically-specific rules, laws but also habits and conventions that inform individuals and collective action allows to shed light on their motivations and to explain why industrial and employment change take place in the way they concretely do. Specifically, I have shown that company behaviour responds neither to a unique rationality, nor can it be determined *a-priori*. This is precisely the consequence of the non-standardised and non-universal framework of institutions and relations a company expresses. Paths of restructuring are characterised by variety and their impact on employment dynamics are not inevitable or necessarily negative. It follows that redundancies and restructuring processes become institutionally shaped themselves. They are constructed by individuals and collective actors whose preferences and constraints deeply influence the character of restructuring, the type of employment change, as well the impact and management of job losses.

By contrast, both in the mainstream neo-classical conception and in the Marxist one, the firm as an institution is annihilated. For the former, companies are merely as production functions, “automatic transformer[s] of inputs into outputs” (Pitelis and Wahl, 1998:252) driven by profit maximisation, while for Marxism companies are the sites where the capitalist organisation of the means of production is articulated. In the neo-classical approach, processes of restructuring are explained in terms of economic inefficiencies which only market mechanisms can reverse, while redundancies are seen as unproblematic events. Within the Marxist view, companies’ profitability crises are mechanically ascribed to the working of the capitalist accumulation process and redundancies conceived as the necessary outcome of such a dynamic. The common element of these two dominant positions is that top-down explanations are privileged and the role of individual and collective agency is reduced. Similarly, although the Schumpeterian approach acknowledges firms as active actors in search of innovation, companies tend to be trapped into the phases of business cycles which become the parameters constraining entrepreneurial action. In this conceptual framework too, company processes of restructuring are determined by their reaction to external economic dynamics.

Despite their acknowledgement of the reciprocal interactions between individuals and the institutional environment in which they operate, the dynamics described by the efficiency wage models that stress the social nature of preferences concern exclusively the relations between capital and labour. These models do not account for the asymmetries and divergent interests which exist within capital and labour. The explanation of industrial unemployment comes to be ascribed ultimately to company definitions of efficiency and profitability.

6.9. The geographical specificity of redundancies

The research has revealed the significance of geographical context. Capital and labour are differentiated across space and the institutional endowment of a company too is spatially specific. Concretely, the process of wage determination is the outcome of interactive processes in a specific spatial context, involving companies, workers and other organisations. Such strategies are, in turn, the expression of interests, constraints and opportunities that are shaped by external stimuli, by actors’ interaction and by cultural conditions that have a contextual matrix and respond also to sedimented practices. Economic dynamics and processes of change find therefore an explanation in the local institutional framework,

defining individual and collective action. In addition, this interaction is shaped by historical legacies, institutional and of the local labour market.

The corporate culture established by ICI on Teesside provides a good explanation of the way in which institutions and space are interwoven inseparably. ICI's re-positioning, through plant closures and through business swaps and sell-offs, and a complex policy concerning worker dismissal, can be read as the willingness to honour a paternalistic pact linking the company to the community. Accordingly, ICI avoided compulsory redundancies, offered good retirement deals and sought to sell its marginal businesses together with their workforce. Similarly, the uncontested nature of the process of change initiated by ICI reflects the historical weakness of the labour movement in the area to act differently from the company. Restructuring processes and employment change thus are not events that happen to people; they are rather mediated and conditioned by individuals and collective strategies shaped in place.

The evidence of the spatial specificity of institutional interaction and its influence in accounting for processes of restructuring and job losses challenges the geographical a-specificity characterising conventional economic analyses, both neo-classical and structural. In these conceptualisations, economic events are seen to impact on local contexts but places are treated as spatial containers of economic activities. They attribute no significance to the way in which company preferences are influenced by local relations and by the institutional context in which they operate. Geographical specificity and context are simply secondary factors in explaining redundancies. Similarly, the preference models, whilst acknowledging the social nature of preferences and, therefore, creating the theoretical potentials to account for the geographical specificity of institutions expressing them, are unsatisfactory because they fail to articulate and investigate such preferences. The same fault can be found in the old institutionalist tradition, which has rarely appreciated the territorial dimension of institutions and regulation.

And yet, the acknowledgement of the institutional nature of redundancies leads to appreciation that such phenomena are open to the asymmetric and power relations of place. Companies, workers, other social groups, such as unions but also the State, are not neutral agents; by expressing preferences, they are able to influence and address choices and outcomes in the labour market. Therefore, rather than being driven by them, they actively modify them. Following the institutionalist insights, I hold that the understanding of

employment dynamics is necessarily connected to the understanding of the nature of market and non-market relations. Specifically, the regulation of non-market relations is believed to express the achievement of a relative order on the repartition of duties and benefits among social groups. There is no spontaneous generation of social order springing from the unconscious co-operation ensured by price. Instead, institutional order is a compromise based on social relations characterised by conflicts. But in contrast to Marxist analysis, in which capitalist social relations revolve around class antagonism, I wish to retain a more pluralistic vision of social and economic relations, assuming that the definition of employment relations is multiple, including collaboration and negotiation.

For example, an awareness of sectoral dynamics guided the action of trade unions in the chemicals sector in Brindisi. They accepted technological innovation with its labour saving effects and company attempts to contain costs. They sought, in return, minimal employment adjustments and favourable redundancy payments. The example also shows how union bargaining power is shaped by national laws as well as constraints imposed by a local economic context of fear of unemployment and scarce employment opportunities.

6.10. Conclusions

This chapter has presented the comparative analysis of the main findings on causes of redundancies and restructuring processes in the chemicals and clothing sectors of Teesside and Brindisi. The evidence illustrated puts forward an interpretation of such phenomena that is sensitive to complexity, variability and contingency. Rather than being seen as mere economic events, employment and industrial change come to be interpreted as complex socio-economic processes shaped by the interplay of individuals and groups' actions which are influenced by sectoral trends and institutional influences, spatially and historically specific. I have shown that decisions about industrial and employment restructuring respond to rationality but also to symbolic relations which are sedimented in time and spatially-specific. It is precisely the unique alchemy of relations crystallised by companies and expressed in the definition of the employment relation to explain the specific manner through which efficiency and profitability are pursued.

The interpretation of redundancies and restructuring as institutionally shaped and geographically situated processes challenges the orthodox argument on the theme. By treating

companies as profit maximising agents, this position suggests the existence of prevailing forms of economic rationality and, therefore, the convergence of restructuring practices centred upon employment reduction. The emphasis on the contribution and the limits of other economic perspectives on industrial unemployment have helped to delineate a richer theoretical framework which I believe to provide a more adequate account for the complexity of such phenomena and to overcome the reductionism of conventional economic interpretations.

Chapter 7 – Conclusions: The social value of labour and economic performance

7.1. The contribution of an institutionalist perspective on industrial unemployment

In the last decade or so economic geography and, specifically industrial geography, has witnessed a move towards explanatory accounts that emphasise social and cultural context. As indicated by Barnes (1999:17), these accounts “have come in various shapes and sizes” and centre around a plurality of categories of analysis such as social power, cultural identity, institutional situatedness, etc. The study of institutions and their role in shaping industrial activity represents one of the fields in which the intersection of industrial geography and institutionalism is expected to produce important theoretical and empirical contributions. As acknowledged by Barnes (*ibid.*), however, there has always been an interest in institutions in industrial geography as witnessed by the work of e.g. Danson on segmented labour market and Hayter and Watts on enterprises during the eighties.

The approach adopted in this work to the study of industrial unemployment represents an attempt in this direction. By assuming an institutionalist perspective, this study departs completely from the neo-classical economic analysis on the phenomenon that establishes a direct and negative causality between the institutional regulation of the employment relationship and corporation performances during phases of economic recession. As underlined, this view suggests that the regulation of the wage and of employment conditions compromises downward adjustment of the cost of labour and urges corporations to undertake more radical adjustment strategies implying job losses. The institutionalist perspective on industrial unemployment adopted here holds instead that industrial restructuring and redundancies are institutionally determined and geographically situated processes. I have claimed and shown on the basis of the evidence presented in chapter four and five that such processes cannot be understood and explained solely as the outcome of firm profit maximising behaviours aiming to restore their profitability compromised by the rigidity of the cost of labour. They are rather understandable by considering that corporate action is embedded into a set of formal and informal institutions that affect the process of wage determination and, through it, the definition and the pursuit of profitability and efficiency. In other words, whilst highlighting the ways in which the forces of capitalist economic

development such as accumulation, competition, technology, etc. generate spatially differentiated outcomes in terms of employment, it is held that those forces shape and are shaped by a complex matrix of institutions. The specific contribution of an institutional perspective to industrial redundancies lies therefore in the understanding of the extent and manner in which processes of restructuring and redundancies are shaped and mediated by specific institutions and the processes through which they take place.

As indicated in chapter three, such an understanding has needed the abandonment of the mainstream methodological approach to economic action, with its conception of the rational maximising actors and of the perfectly competitive markets, and the adoption of the conception of human agency put forward by the old institutionalist tradition. Formed through the prevalence and permanence of certain individual habits, institutions in turn reinforce them. Through this circle of mutual engagement, formal and informal institutions involve the interaction of individual agents but develop autonomous properties, incorporate values as well as assume their own moral legitimisation. Institutions sustain and are sustained by shared conceptions and expectations that become the basis of economic action. In addition, although they “have relatively durable, self-reinforcing and persistent qualities” (Hodgson, 1998: 179), institutions are subject to transformation.

Specifically, this thesis has investigated processes of job losses through the intermediate formal and informal institutions that enter the regulation of the wage relationship, which account for the interplay of individual and group actions, in a particular historical moment and place, and reflect cultural conditions, sedimented practices, societal values, etc. In doing so, such an approach has paved the way for a theory of industrial unemployment emphasising especially the role of agency and the complexity of the phenomenon under investigation. These dimensions are precisely the ones that conventional economic analyses cannot explain.

First, the focus on the informal (conventions, customs, norms, social routines) and formal (laws, contracts, etc.) institutions that enter the process of wage determination and on the way in which they are arranged in the regulation of the employment relationship allows to disclose the processes and motivations of different nature that influence processes of employment and industrial change and explain why they occur in the way they do. In other words, I have contended that such institutions affect corporation definition of economic rationality and mediate their employment strategies that tend to respond to a plurality of criteria (e.g. social

sustainability). The firm has been considered as an institution crystallising a complex web of social and economic relations, primarily between employers and workers, affecting the way in which decisions concerning restructuring and redundancies are taken and actions implemented to pursue profit. In addition, I have considered the strategies of other formal institutions (e.g. trade unions, local authorities, etc.) as well individual preferences that influence capital and labour dynamics and, therefore, redundancies and restructuring. In this view, such phenomena are not something that happen to people but they are processes in which people are both affected and participate.

An institutionalist approach to industrial unemployment emphasises also the complexity of the phenomenon under investigation. Through the identification of the institutions shaping restructuring processes and redundancies and the way in which they do so, such an approach allows to highlight some specific dimensions affecting them. One refers to the economic landscape. By their very nature institutions tend to evolve incrementally and in a self-reproducing way. They are therefore important bearers of industrial histories which, on the one hand, affect the way in which economic and industrial dynamics impact on corporations and, on the other, explain their responses through adjustment strategies. In addition, the institutionalist perspective claims the inherently socio-cultural nature of technological change that is deemed to be dependent on the cultural setting within which it takes place rather than as a process disembodied from society. Ideas of 'path dependency' and 'lock in' suggests that particular trajectories of industrial development as well of industrial restructuring connected to technology have a significant institutional matrix affecting corporation decisions about profitability. Finally, an institutional perspective on redundancies encompasses also consideration of the cultural foundation of the space economy. Processes of industrial and unemployment change are affected by individual identities, lifestyles, patterns of consumption through the formation of conventions and norms both inside and outside the workplace. At the same time, as cultural processes represent the main means through which knowledge, attitudes and cultural values are transmitted, they assume a key role in determining a specific outcome of industrial and employment change.

The adoption of an institutionalist approach to industrial redundancies has also allowed to highlight the inherently spatial nature of institutional interaction and the consequent spatial specificity of processes of employment and industrial change. Whereas regulation theory assumes the national economic space as the unit of regulation and, specifically, the

configuration of the wage relationship as one of the macro-institutional forms (the others being the form of monetary management and the form of competition), I have focused mainly on the local aspects of the regulation of the employment relationship. I have extended at the local scale the framework that institutionalists and regulationists apply for national economic configurations, by looking at the way in which local capital and labour, local social networks, work cultures in and out of the workplaces, locally and regionally specific institutions and organisations provide stability to local industrial activity but also shape the processes of industrial and employment change. The analytical privilege that the thesis has reserved to the local dimension through the study of two local case-studies does not imply that an institutionalist perspective is specifically best equipped to deal with the local dimension. Thus, whilst I maintain that national as well as supra-national mechanisms of regulation have local varied impact and that regulation has a local foundation reflecting the variety of local institutions entering the definition of the wage relation, I suggest that what is important is to focus not only on the scale at which industrial phenomena occur but especially at the relations among geographical and regulatory scales.

7.2. Some theoretical and policy implications

The concept of regulation is a consistent theme running throughout current academic and policy debates concerning the labour market. The institutional regulation of labour market dynamics has come to be generally seen as the major obstacle to the free working of market forces and the institutions of labour as the source of the rigidity that prevents economic development. Specifically, the institutional regulation of labour cost constitutes the main hinge upon which the orthodox stances base their interpretation of the phenomenon of job losses from industry (Bruno and Sachs, 1988; Layard et al.1991, 1994; CEPR, 1995). The regulation of the wage relation is said to alter company micro-economic equilibrium and to limit their capacity to be cost-effective. The bonds related the employment relation lead labour to become a fixed cost of production. Swift adaptation to new market conditions is prevented through the downward adjustment of the price of labour (wage) so the reduction of employment becomes the only mechanism of adjustment. The best solution indicated to solve the problem of labour is the flexibilisation of the employment relation; only complete freedom for companies to adjust their factors of production according to market conditions constitutes the guarantee for their economic performance which, in turn, benefits labour (see e.g. OECD, 1994; 1997).

In much of the academic and policy literature, the source of the problem of industrial unemployment is therefore taken for granted. External intervention in market dynamics undermines the action of companies as profit maximising agents. Profitability is compromised when, during the downward phases of the economic cycle, wages do not fall adequately and remain above the marginal product of labour at full employment. It follows that the only way to adjust to adverse market conditions is through the reduction of employment. Yet, the nature of lay-offs is random. It is apparent that the image provided by this theoretical apparatus is one in which companies' activity in various sectors and places may be changing but the fundamental origin of their problem remains the same. Industrial unemployment is the outcome of homogeneous restructuring processes, driven by mono-causal dynamics.

As argued in this thesis, redundancies cannot be reduced to mere economic phenomena, the inevitable outcome of industrial restructuring processes. Corporate patterns of adjustment are neither uniform, definable a-priori, nor the result of profit maximising behaviour. They are instead continuously subject to the actions and strategies of individuals and groups that influence the process of wage determination and, through it, the definition and the pursuit of profitability and efficiency. Restructuring and redundancies are not events in which people have no role except one of reaction or perhaps of support. Restructuring and redundancies are shaped institutionally and dialectically – they are processes.

The interpretation of industrial unemployment I have advanced is different from the readings offered by dominant stances as it has put the wage relation and institutions that regulate it at the centre of the analysis. The underlying assumption has been that such institutions constitute the major source of the heterogeneity in the restructuring paths undertaken by corporations as well of their differentiated impact on employment. Prevailing institutional arrangements relating to the employment relation also explain variations in employment performance at the aggregate level under the same recessive conditions. This is because, in contrast to the neo-classical conceptualisation and in accordance with institutionalist insights, I have assumed that the quality of labour and its contribution to production is not reducible to the labour contract and, therefore, cannot be subjected exclusively to monetary exchange. Indeed, the bilateral arrangement between employer and worker is incomplete because neither the content of work nor the future conditions under which it will take place can be anticipated. Consequently, there is not a simple relationship between pay and productivity. It follows that

the formal and informal institutions of labour, a reflection of wider societal arrangements, that regulate the relationship between capital and labour, constitute the critical factor for explaining corporate performance and change. In this perspective, therefore, the study of industrial unemployment and restructuring has been approached through the processes of institutionalisation and regulation. Accordingly, they have been held as institutionally constructed processes and as such geographically situated.

The empirical investigation at the heart of this work has reinforced this theoretical standpoint. As illustrated in the two case study chapters on Teesside and Brindisi and in the comparative one, the nature of the causes leading to job losses from the chemicals and clothing industries are varied and cannot be reduced merely to the cost of labour and to its binding (and, for this, rigid) regulatory outcomes. As shown, different definitions of profitability emerge in the two sectors and among companies of the same sector; this is because companies pursue different forms of efficiency in response to different sets of possibilities and external constraints and in most cases the goal of cost minimisation is not always the primary one. The convergence of corporate practices of adjustment towards a uniform, homogeneous pattern is therefore denied by the evidence gathered. By the same token, I have argued that such practices do not necessarily lead to the reduction of employment.

The perspective on industrial unemployment proposed here constitutes a clear alternative to mainstream interpretations which, in their efforts to produce models offering refined and general accounts of the phenomenon, have ended up reducing and simplifying its complexity. Beyond abstract models and conventional analyses, a more concrete understanding of the problem of industrial unemployment has been deemed possible and indeed to be put forward. By looking at the plurality of various institutions that shape the definition of the wage relation and regulate the way in which profitability and efficiency are pursued, three aspects - complexity, agency and geography of the phenomenon - re-define the interpretation of industrial unemployment. Complexity refers to the plurality and interrelated nature of both economic and social variables that may trigger profitability crises and the strategies which companies may decide to undertake to maintain and restore profitability. Agency allows us to highlight the subjective processes, expressing individuals' and groups' constraints and opportunities as well preferences, which dialectically define the rationality and viability of economic processes. Geography consists of both the spatial specificity assumed by economic phenomena and the cultural endowment of an area which shapes economic processes,

according to the societal values in which they are embedded. Decisions made and actions implemented by corporations respond to motives of economic rationality but also to routines, customs, and internal norms that are temporally contingent and spatially-specific.

The focus of this thesis on industrial unemployment and restructuring seems, at first sight, to hark back to the debate on themes that, whilst at the forefront of the theoretical and empirical interest during the decade from the mid-1980s to mid-1990s, have since then acquired a certain marginality (see among the others, Danson, 1986; Martin and Rowthorn, 1986; Massey and Meegan, 1985). Indeed, after the period of heavy industrial restructuring involving both private and public corporations and massive job losses, hitting especially the areas revolving around traditional manufacturing industries, it has become apparent that the subject has lost its appeal among academics and policy makers¹³¹. The modification of the industrial structure of many industrial countries, reducing the weight of heavy manufacturing industries, the expansion of services and the increasing percentage of self-employment, suggested that the problem of industrial unemployment has disappeared from the economic and labour market scene.

In reality, the neglect of the area of investigation in question, I believe, is not justified. This is for two main reasons. First, 'traditional' forms of industrial unemployment, deriving from the downsizing and closure of plants are still common and produce often spatially concentrated problems of labour. Second, new forms of industrial unemployment are emerging brought about by the processes of continuous restructuring that represent the novel feature of corporate adjustment to market conditions, by vertical disintegration of productive processes, by processes of subcontracting and re-location. In other words, on the one hand, there are still cases of radical restructuring leading, for instance, to plant closures and massive job losses and, on the other, there is continuous restructuring that, whilst not producing a major impact on the employment levels in terms of job destruction is nonetheless changing the employment relations. As a consequence, new forms of under-employment are emerging as well new forms of economic and labour weakness. Therefore, the fact that industrial unemployment does not manifest itself according to the 'traditional' manner does not necessarily mean that it does not exist at all.

¹³¹ Much of the recent literature has focused specifically on plant closures (e.g. Pike, 1998; MacLachlan, 1992; Watts and Stafford, 1986)

The need to account for a phenomenon that is assuming complex features, primarily because of the modification of productive relations, and affecting traditional and new categories of workers, explains the choice of the theoretical and analytical apparatuses underlying this research. The conceptualisation of industrial and unemployment change according to an institutionalist perspective constitutes a potential breakthrough in economic geography. Besides the causes of different nature that lead to restructuring and redundancies, such an approach allows us to account for the institutional framework and the values it reflects that govern relationships between capital and labour and, therefore, the evolution of economic processes in the contemporary phase of capitalist development. That is, it does not simply acknowledge the salience of the formal and informal institutional configuration on restructuring and redundancies but, more importantly, seeks to explain such economic processes in the light of societal values that guide economic action.

Two strictly related implications can be drawn out from the analysis. First, the institutionalist perspective adopted here allows us to transcend the debate that in the last two decades has monopolised much of the academic literature and policy making activity because of the support it gained in political discourses of diverse traditions (Boyer, 1988; OECD, 1994; CEPR, 1995). This has revolved around the dichotomy 'rigidity versus flexibility', 'institutional regulation versus market forces', or 'regulation versus non regulation'. The emphasis of this debate is, I believe, misplaced and concretely misleading. It is misplaced because, as I sought to demonstrate in this work, the key issue for industrial unemployment and restructuring relates to the type of regulatory solutions that allow certain economic and labour performances to be consistent with the values that a society considers economically legitimate. It is misleading because discourses praising the spontaneous and beneficial effects of de-regulation of the employment relation have in reality become the means to re-define individual and collective responsibility within the productive process and labour market. De-regulation does not enhance the free working of productive and market forces but moves the problem of industrial unemployment (the problem of labour) from a collective to an individual level. On the one hand, the manifestation and persistence of unemployment are attributed to individual deficits (lack of adequate training, skills, values appropriate for the organisation in which they work, etc.); on the other, the conditions to safeguard jobs or to re-enter the industry (labour market) depend in first instance on the workers and unemployed themselves (Peck, 1998; 1999). In this theoretical frame, collective institutions are supposed to retreat from any type of involvement in labour market dynamics. Companies and the State

no longer have responsibility to intervene to correct labour market failures for the same reasons that they do not exist as such: failures are individual and not determined by occurrences in the economic or social realms. Consequently, the legitimacy of the systems of production and of State is by no means threatened.

The progressive retreat of institutions from direct or indirect intervention, in my view, is likely to amplify the problem of industrial unemployment rather than alleviate it. By creating the conditions for the emergence of sharp differences within and between spaces of production, restructuring strategies are deeply influenced. At a local or company level, the flexibilisation of employment practices is leading to the dichotomy between core and peripheral productive activities and core and peripheral workers; the latter are trapped into a vicious situation according to which their individual 'deficits' are the causes that lead them to be outside the core of the production process. This is, in turn, the main obstacle to obtain future better working conditions. At the same time, trajectories to re-enter the workplace are designed to satisfy the technical and social practices of the organisation. At systemic level, the deregulation and individualisation of the employment relation, with the aim at responding to the novel demands of production and to allow swift adjustments of wages and labour contracts to market conditions, are prone to contradictions (Brunetta and Dell'Aringa, 1990). For one, international competition is only partly conducted on the base of costs. When, more frequently, adequate performance is connected to quality, innovative capacity, research and development, etc., the link between individual effort, productivity, employment practices and wider economic performances returns to the fore in the debate.

Second, and related to the preceding discussion, the study of industrial unemployment through an institutionalist perspective allows a theme that political rhetoric seems to have darkened to be openly put back into both the theoretical and political debate, that is the social value attributed to labour. The push towards reforms aiming to lighten the burden of the indirect costs of labour sustained by employers as well tendencies to the progressive withdrawal of the State for reasons of fiscal efficiency without any parallel reform in the basic relations of production raise questions about the reproduction of labour (Burawoy, 1985; Boyer, 1993). The willingness to consider the cost of labour as a variable cost of production rather than a fixed one necessarily implies questions about new ways to reproduce labour¹³². Yet, pursuit of the myth of the wage as the mechanism regulating the sphere of production

and the parallel rolling back of the welfare state is widening the role of social economy and/or third sector as well of the sphere of social reproduction (domestic work). Regulatory dilemmas emerge and relate primarily to how to co-ordinate social reproduction effectively and whether alternative routes to mainstream economies may serve to the scope or whether it becomes only a means to relieve the task of the State and of mainstream economy.

Studying industrial unemployment through the institutions regulating labour has emphasised precisely how the problem of labour or more precisely the efficiency of labour and, consequently, of corporate performance, cannot be dealt with unless the social costs of labour are taken into consideration. Such a problem does not reside so much in the dilemma between efficiency and equity but rather between individual and collective efficiency, that is between efficiency in a classical sense and efficiency at the level of community (industrial efficiency and social cohesion) (Bazzoli, 1994). In other words, the nub of the problem revolves around the definition of the aim of production and the conditions of workers' involvement in it, rather than the mere regulation of the exchange of labour. Open recognition of the problem of the social cost of labour, of the need to secure its reproduction, as well to ensure the protection of the intangible property of workers, constitute themes of rupture with the current theoretical and policy debates and a source of further investigation. Rather than supporting the progressive retreat of employers from any type of commitment towards their workforce, following only labour cost consideration, there is the need to explore the way in which the mode of production may be transformed and the way in which the institutions of labour within industrial production may ensure its economic viability— as sources of economic efficiency - and institutional viability— capacity of social cohesion. Yet, this implies the need to tackle primarily the transformation of industrial organisation and the revision of the logic concerning the costs of economic and industrial action.

The study of industrial unemployment through an institutionalist approach paves the way for a re-thinking of policy measures to tackle the problem. An institutionalist agenda distances itself from the dominant policy in three ways. First, it recognises a role for demand-side policies, besides the necessary labour market reforms. A plurality of interventions could stimulate demand as a source of employment opportunities. There are few chances to create economic and employment opportunities without policy programmes aiming to improve productive conditions through infrastructures and services and to ensure an adequate level of

¹³² This involves a wide range of processes, from the biological procreation to education, from training to caring,

investments avoiding inflationary outcomes. Second, an institutionalist policy is sensitive to the promotion of the role of a variety of individual and collective actors at the local level in the definition of economic and labour market priorities. Without degenerating into parochialism, such an approach would enhance the connectivity of local contexts that, for many observers, is the critical factor for economic success rather than the mere presence of local relations among institutions (Hudson, 1999). This type of relationship could enhance companies' ability to anticipate and respond to changing external circumstances rather than oblige them to adopt purely reactive strategies. Third, the institutionalist approach put forward here considers as a critical factor the democratisation of collective negotiation within firms and at national level which considers the plurality of interests involved. Specifically, the re-definition of enterprises as institutions in which workers and trade unions become actors implies the re-definition of new employment conditions, of a new articulation of the spheres of production and allocation and of the organisation of social time. Public action should become more flexible in the resolution of conflicts and problems and should refer to the more general political economy.

These suggestions, I believe, go beyond dominant assumptions according to which the intrinsic supply-side qualities of the workforce and of the context are sufficient to create employment and economic development opportunities. Concretely, the blind faith that deregulation of employment relationships combined with supply-side policies is the only pathway to employment creation and industrial development is likely to produce limited results, especially in the areas of old industrialisation. Indeed, these are areas characterised by the domination of externally owned or controlled companies. By creating their own internal labour markets through in-house and task dedicated training, often for a limited range of occupations, these companies have in most cases prevented skills diversification in the wider local labour market and, especially, the formation of an entrepreneurial and institutional culture equipped to tackle the challenges of the changing economic environment and which could overcome the burden of past institutional legacies, locking in their development paths.

From the preceding discussion, some final remarks can be drawn. What emerges is the centrality of the employment relationship not simply for understanding industrial unemployment but especially for understanding the aims of economic action and the processes underlying it. In other words, the regulation of capital and labour relations, through

the institutions of labour at different levels (company, local, regional, national) becomes the critical factor in accounting for current industrial and employment processes of change. In contrast to the dominant attack on labour prerogatives and individualisation of the employment relation in order to improve the dynamic of productive forces and a better allocation of resources, following a perspective of individual maximisation (Sengenberger and Campbell, 1994), the institutionalist perspective suggests that the key condition for this to happen lies in a new compromise between capital and labour. A new and more coherent definition of the institutions regulating the exchange and the use of labour would provide the basis for a more collective and, therefore, more democratic as well viable, way of solving labour problems. The scope of economic action becomes primarily re-distributive and the satisfaction of ethical objectives drives the definition of employment relations.

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